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Angola	22 S.	Iraq	350,200 Lira	Portugal	110 Esc.
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ESTABLISHED 1887

U.S. Reports Economy Grew At 2.4% Rate in Last Quarter

By John M. Berry
Washington Post Service

WASHINGTON — The U.S. economy grew at a moderate 2.4-percent annual rate in the third quarter as a worsening trade deficit and weak business investment offset a surge in consumer spending for new cars, the Commerce Department reported Wednesday.

The expansion was faster than the previous quarter's 0.6-percent rate of increase in the gross national product, adjusted for inflation, but also well short of the 4-percent forecast by the Reagan administration for the second half of the year.

GNP measures the total value of a nation's output of goods and services.

Inflation, as measured by the GNP price index, ran at a 2.5-percent rate in the third quarter, up from 1.7 percent in the second, the report said. Most of the increase was due to a faster rise in food costs.

The figures, preliminary estimates based on less than three full months worth of data for some key sectors including international trade, provided few indications that economic growth is about to accelerate, analysts said.

While there are some signs that the trade deficit may begin to decline, a drop in consumer spending is also likely after the surge in auto buying triggered by low-interest financing offers that have now expired, they said.

The Commerce report said that consumer spending for durable goods shot up at a 3.8-percent annual rate in the third quarter as a result of new car purchases.

The third-quarter increase in GNP was about in line with the 2.2-percent increase in economic activity since the third quarter of 1985.

At the White House, Beryl W. Sprinkel, chairman of the Council of Economic Advisors, acknowledged that auto sales in the current quarter will be lower than in the third quarter.

"But of course," he added, "if consumers have the income, interest rates are low, they're confident about the future, they'll be spending on something else."

Mr. Sprinkel said he expects continued strength in consumer spending, more business investment and a prospective turnaround in trade.

However, a number of private economists challenged that view.

Jerry Jasnowski, chief economist for the National Association of Manufacturers, said that other recent statistics have pointed to weaker, not stronger, growth ahead. He noted that industrial production has gone up only 0.1 percent each of the past two months.

"The continued stagnation of industrial production," Mr. Jasnowski said, "indicates this economic expansion is likely to peter out soon unless we see some significant changes in the next month or two."

Allen Sinai, chief economist of Shearson Lehman Brothers, predicted that the economy would continue to expand at about the same 2.5-percent rate as the trade deficit begins to improve, but that business investment and real-estate activity would decline.

"Next year promises to be another lackluster year for the economy, particularly in the first half," Mr. Sinai said.

The main impetus for growth will have to be trade and the consumer, and consumers typically don't respond right away to tax cuts."

Nabil Matar with his wife, Dina, after he was freed by Modem abductors in West Beirut following five months of captivity. He would not comment on the identity of his abductors, his detention or the circumstances of his release. Page 6.



Abductors Free Beirut Professor

Nabil Matar with his wife, Dina, after he was freed by Modem abductors in West Beirut following five months of captivity. He would not comment on the identity of his abductors, his detention or the circumstances of his release. Page 6.

Pinochet's Foes, Junta Talk Quietly

By William D. Montebello
Los Angeles Times Service

Rilwan Lukman, OPEC president, was a key mediator in reaching an oil accord. Page 13.

GENERAL NEWS

■ Poland's campaign to broaden support of government appears to be faltering. Page 3.

■ Economic recovery in U.S. cities has created jobs, but the growing minority populations lack skills for them. Page 3.

■ Arab leaders shun Israel's change in leadership. Page 6.

■ The BBC settled a libel suit brought by two Conservative legislators. Page 6.

SCIENCE

■ In their own world: the case of the silent twins. Page 7.

BUSINESS/FINANCE

■ General Motors Corp. said it recorded an operating loss of \$33.5 million in the third quarter. Page 13.

■ A European Community Commission report criticized Japan's efforts to increase imports. Page 13.

■ The New York Mets defeated the Red Sox, 7-1, cutting Boston's World Series lead to two games to one. Page 19.

IN TOMORROW'S INT'L

For hunting in Ireland. In Travel.

South African Church Denounces Racism as Sin

United Press International

JOHANNESBURG — The pro-government Dutch Reformed Church abandoned on Wednesday decades of support for Pretoria's apartheid policy and said attempts to justify racial segregation through the Scriptures "must be admitted as an error and denounced."

The synod of 360 leaders of the

A South African clergymen is the first Afrikaner to move to a black township. Page 6.

church, however, reaffirmed its support for segregated education and rejected moves to unify the white Dutch Reformed Church and the three related churches set up for blacks, Asians and people of mixed race.

After more than a week of often bitter debate, church leaders, who voted to declare racism a sin, rejected a move to declare apartheid a sin. They agreed only that it cannot be justified by the Scriptures.

Apartheid is the white-minority

government's policy of racial separation.

Observing at the synod, said while the decision against apartheid is qualified, it nevertheless represented a major breakthrough in church thought.

The Afrikaans-language Dutch Reformed Church has about 1.6 million members, almost half the church's white population — and has been closely allied to the white-minority government since it came to power in 1948.

It is not an official state church, but its members have included all South Africa's white leaders since 1948.

The church, an offshoot of the Reformed Church of Holland, has claimed biblical justification for racial separation.

Formal segregation began about 100 years ago, with black, Asian and colored members assigned to separate churches.

The synod unanimously adopted a motion Wednesday that will be justified by the Scriptures.

See CHURCH, Page 2

have said this year they will pull out of South Africa also will be accompanied by uninterrupted sales, and profits, in South Africa, industry analysts said.

IBM and GM spokespersons emphasized that the planned sales of the South African subsidiaries to local interests means that the parent companies eventually will have no assets, no capital and no employees here. The measures are being taken, in part, in response to the slow pace of reform of South Africa's apartheid system of racial separation and continued white minority rule.

But, the companies' officials added, the U.S. parent companies will continue to benefit from sales of their products and services here, while at the same time regaining much of their capital investments through repayments of loans made to South African investors to enable them to acquire the subsidiary.

Both also will have an option to

Gorbachev Holds Firm: SDI Blocks Arms Pact

Speech Follows Soviet Order Expelling 5 U.S. Diplomats

The Associated Press

MOSCOW — Mikhail S. Gorbachev, the Soviet leader, said Wednesday night that his meeting in Iceland with President Ronald Reagan brought the United States and Soviet Union closer to agreement on nuclear weapons, but that it clearly defined the many obstacles to arms control.

"It was perhaps the first time in many decades that such a big stride was made in the quest for nuclear disarmament," Mr. Gorbachev said in a television address.

However, he said, the U.S. anti-missile defense program, the Strategic Defense Initiative, remained the main obstacle to an arms agreement.

Mr. Gorbachev, in his television speech, said the meetings Oct. 11 and 12 in Reykjavik encouraged the Soviet leadership on the possibility of reducing nuclear arms.

"I still consider that as a result of the meeting," he said, "we achieved a higher stage not only in analyzing the situation, but in defining the aims and framework of possible agreements, agreements on nuclear disarmament."

Meanwhile, the Soviet Union announced on Wednesday the expulsion of five more American diplomats and withdrew 260 Soviet employees from the U.S. Embassy in Moscow and the consulate in Leningrad.

The move was in retaliation for Tuesday's order by the United States expelling 55 Soviet diplomats.

The official news agency Tass quoted Mr. Gorbachev as saying of



Mikhail S. Gorbachev

RELATED ARTICLES

■ NATO defense ministers backed President Ronald Reagan's stance at the Reykjavik talks. Page 3.

■ Chancellor Helmut Kohl of West Germany urged a link between nuclear and conventional arms cuts. Page 3.

■ The recent expulsions of U.S. and Soviet envoys are unprecedented in scope. Page 3.

■ Ronald Reagan took an appeal by Rostropovich, the Russian emigre cellist, to Mikhail S. Gorbachev in Iceland. Page 2.

Aquino Shifts To Hard Line On Rebels

By Keith B. Richburg
Washington Post Service

MANILA — Facing her most serious political crisis in seven months in office, President Corazon C. Aquino attempted Wednesday to mollify her chief critics in the military by toughening her public stance toward the country's Communist insurgents. She also announced that she would set a deadline "soon" for ending her peace talks with the rebels.

In a speech that at times seemed to echo the recent warnings of her defense minister, Juan Ponce Enrile, Mrs. Aquino declared "our patience has worn thin" with the Communists. She accused the rebels of trying to "exploit the democratic space we have created in order to destroy the democracy our people have restored."

The tone and tenor of the speech, to a women's group at the Manila Hotel, appeared to mark a significant shift by Mrs. Aquino, who had pinned her hopes of solving the Communist insurgency problem on a policy of reconciliation. But she has seen that policy rapidly eroding under continued rebel ambuses and harsh attacks from within her government and a restive military.

The speech was mainly an effort by Mrs. Aquino to placate Mr. Enrile and defuse a crisis that appeared Tuesday to press the collapse of her fractious coalition government.

In a frank admission for a chief of state, Mrs. Aquino acknowledged Wednesday the divisions threatening her government's stability, saying:

"Our styles will continue to differ. We are different people, struck from different molds that were created out of radically different experiences."

She spoke of holding a "frank" two-hour meeting that lasted until midnight Tuesday with Mr. Enrile, Vice President Salvador H. Laurel, and other aides amid rumors of an Enrile-led coup.

"The height was yesterday," she said of the rumors. "when, on the one hand, I was told I had ordered the arrest of Enrile, and on the other, Enrile had started his coup by calling on the service chiefs to declare their loyalties one way or the other."

Of the unusual midnight meeting, at the home of the president of the University of the Philippines, Mrs. Aquino said: "You may say this comes late in the day, but better late than never." She later referred to the meeting as "peace talks" and "the reconciliation."

"There is no falling out between Minister Enrile and myself," she told the audience of about 1,000, which was stunned by her candor. "We are not stupid."

She said during the course of meeting, the "differences" between her and Mr. Enrile "were increasingly being resolved in a common impatience over the slow pace of some of our initiatives."

The speech came after questions about the military's loyalty had

See AQUINO, Page 2

For IBM and GM in South Africa, It Will Be Profits as Usual

By William Claiborne
Washington Post Service

JOHANNESBURG — Despite the announcement by General Motors Corp. and International Business Machines Corp. that they intend to sell their subsidiaries here, it will be business as usual for the two U.S. corporate giants behind the facade of new company logos, executives of the concerns said Wednesday.

Divestment by many of the 19 other American companies that

have said this year they will pull out of South Africa also will be accompanied by uninterrupted sales, and profits, in South Africa, industry analysts said.

But, the companies' officials added, the U.S. parent companies will continue to benefit from sales of their products and services here, while at the same time regaining much of their capital investments through repayments of loans made to South African investors to enable them to acquire the subsidiary.

Both also will have an option to

repurchase the subsidiaries if the political situation changes.

In the case of GM, divestment will turn a losing operation into a profitable one and probably will yield the parent company more money from South Africa than it has made for years, industry analysts said.

Similarly, IBM will not only continue to profit from sales of its products and services in South Africa, but over the next five years or so will regain with interest the loan

it makes to the South African subsidiary of its subsidiary here. The loan will be its final investment before the mid-November sanctions deadline for new U.S. investment in South Africa.

"They're not cutting us off so much as they are cutting us loose," said an executive of IBM South Africa. He added, "What they are saying is, 'As far as necessary, we are going to make this move.' But it

See SANCTIONS, Page 2



President Ronald Reagan at a fund-raising luncheon in Denver last month.

VIETNAM: Intense Debate Among Leaders Reported

(Continued from page 1)

meetings have been under way since March to prepare for the congress.

Analysts say that at the heart of official soul-searching is the fact that since the end of the Vietnam War in 1975 and the reunification of the country, the government has failed to deliver on its promises of major improvements in living standards for the country's estimated population of 60 million.

They add that party political controls, organization, leadership and the costly occupation of Cambodia have contributed to poor economic performance.

Western sources put the number of unemployed in Vietnam at about eight million, or one third of the work force. They say that an extra two million people a year are entering the job market and that the country's population is growing at

an alarmingly high rate of 2.3 percent annually.

In a blistering attack in the May issue of Communist Review, Le Duc Tho, who ranks fourth among the 13 full members of the Politburo, noted that at a time when millions of ordinary Vietnamese were still "experiencing privations, there exist cadres and party members guilty of corruption, bribery, smuggling and amassing riches."

"Never before," Mr. Tho wrote, "has there been, in our party, such a degeneration of virtues and life-style as there is now."

He said he expected one third of about 150 regular and alternate members of the central committee to be replaced because of infirmity, old age or incompetence.

In the future, he added, merit and achievement should count more in the selection of responsible leaders than seniority.

Analysts are paying particular attention to a speech given by Mr. Chinh to party cadres in July.

They say that apart from advocating economic reform to stimulate output and employment, it appeared to stake his claim to remain party leader and state president.

Mr. Chinh, 79, was named general secretary in July following the death of Le Duan. Because of his age, many analysts felt he would only serve as an interim leader until the congress elected new men to take the place of old-guard figures who have been at the helm for many years.

In his speech in July, Mr. Chinh conceded that the Politburo and party central committee, while having great achievements to their credit, had "committed a number of serious blunders and mistakes in economic construction and management."

He said party officials had been guilty of autocratic behavior and stressed that policies could not be carried out unless they had the support of the people.

"We have held on too long to the system of centralism, bureaucracy and standardization," he declared.

However, some Bangkok-based analysts doubt that the sixth party congress in Hanoi will mark a major change in policy or leadership despite Mr. Chinh's assertion that the meeting would have "momentous significance."

One analyst commented: "My own best guess is that there is not going to be any significant change in spite of all the discussion that has been going on." The source said there had been a similar buildup to the 1982 congress, but then nothing much emerged.

He added: "There will only be real reform if Vietnam follows China's economic pattern, rather than a Soviet model, and disengages from Moscow and Leningrad."

In an earlier expulsion, the last of a group of 25 Soviet diplomats accredited to the United Nations left the United States last week under a U.S. government order to reduce the size of the Soviet UN mission.

Wednesday's announcement by Moscow brought to 10 the number of American diplomats ordered out of the country, including the U.S. Embassy's naval and army attachés.

The new Soviet restrictions seemed likely to limit U.S. embassy and consular operations in the Soviet Union in the same manner as the American expulsion order does for the Soviet missions in the United States.



Corazon C. Aquino speaking on Wednesday to a women's group at a Manila hotel.

GORBACHEV: Firm SDI Stand

(Continued from page 1)

confine research on SDI to the laboratory.

U.S. officials said of the latest round of expulsions that 5 of the 55 Soviet diplomats had been expelled because of the Soviet order Sunday expelling 5 American diplomats.

When asked if the officials were expected to make the Soviet Embassy staff in Washington and the consular staff in San Francisco equal to the size of the U.S. contingent in Moscow and Leningrad.

But the officials, who demanded anonymity, said there would be a follow-up package expanding Mr. Kampelman's instructions and also dealing with the European missiles after details are worked out by U.S. arms specialists in Washington.

Secretary of State George P. Shultz is due to resume discussions on weapons and human rights with Foreign Minister Edward A. Shevardnadze in Vienna on Nov. 6.

■ Convicted Spy Is Executed

The Soviet Union announced Wednesday that it had executed an avionics design expert, A.G. Tolkaichiy, after his conviction of spying for the United States, United Press International reported from Moscow.

Mr. Tolkaichiy was reportedly exposed by Edward L. Howard, a CIA agent who was dismissed by the agency and defected to the Soviet Union.

Tass said Mr. Tolkaichiy, a researcher at a scientific institute in Moscow, had been an operative for American intelligence services working from the U.S. Embassy in Moscow.

■ Reagan Arms Proposals

Mr. Reagan has directed U.S. negotiators to propose sharp reductions in long-range nuclear weapons to the Soviet negotiators in Geneva, administration officials said Wednesday in Washington.

Rostropovich Sought Reagan Intercession

(Continued from page 1)

New York Times Service

WASHINGTON — Mstislav Rostropovich, the Russian emigre cellist and conductor, said Wednesday that President Ronald Reagan had carried to Iceland a request that the Soviet Union allow Mr. Rostropovich's sister to travel to the United States next spring.

The Soviet leader, Mikhail S. Gorbachev, agreed to the request, Mr. Rostropovich said. The cellist added that his sister, Veronika, a retired violinist, and her husband, Mikhail Tomaszewsky, an economist, are expected to help him celebrate his 60th birthday March 27.

Mr. Rostropovich, who left the Soviet Union in 1974 and is director of the National Symphony in Washington, said his sister's two children would remain in the Soviet Union.

He noted that Nancy Reagan had played a role in the episode after he failed to get a response from the Soviet government earlier this year.

AQUINO: Tougher Stand on Rebels

(Continued from page 1)

been raised by the increasing uncertainty of Mr. Enrile's intentions.

"There was a general feeling among those that was beginning to percolate," said Benedicto David, a deputy presidential spokesman. "You have to nip that in the bud."

But while the speech on Wednesday and the announcement of an imminent deadline for talks with the insurgents succeeded in easing the immediate crisis, it appeared unlikely to settle a larger gulf separating Mrs. Aquino and Mr. Enrile.

One military source close to Mr. Enrile said that the defense chief, at the meeting on Tuesday night, had asked that some top Aquino aides — including Information Minister Teodoro L. Locsin Jr., who was

there — be dismissed from the cabinet.

He also requested that Mrs. Aquino consider revoking her revolutionary "freedom constitution," which Mr. Enrile has publicly questioned on legal grounds.

"Clearly, there is no common ground, because she is invoking people power and he is making legal arguments," the Enrile ally said.

"When she was told that some of her friends in the cabinet would have to go, for the good of the country," she said that she could not dismiss them because "they have been with her and she owes them a lot."

He said the speech would not solve "the nagging problem as far as Enrile is concerned."

Some cabinet members who had demanded Mr. Enrile's resignation also were not convinced Wednesday that he would be so easily placated. Asked if Mr. Enrile would now cease his highly public attacks on the government, the minister of local government, Aquilino Pimentel, said: "I don't know. Wait till the next flag ceremony."

Police officials insisted that Mrs. Aquino's tough anti-Communist remarks were not a substantive shift in her position. But they acknowledged that her tone was now tougher and that her emphasis was more squarely placed on the need for a military solution to the 17-year-old insurgency should the peace talks fail.

In previous addresses, Mrs. Aquino has concentrated on her efforts at peace and reconciliation, which lately had been attacked by Mr. Enrile and others close to the military establishment.

"I must declare my intention to soon fix a deadline to mark the end of our efforts to achieve peace by talk," she said, "and the earliest start of efforts to establish it by any means the situation calls for. Any attack on centers of government by the insurgents will merely accelerate the deadline."

Answering a question later, Mrs. Aquino said the deadline would be announced "once we have thrashed out some of the other details." An official said that the deadline might be set in early December.

Mr. Aquino had said previously that her peace talks were aimed at separating Marxist-Leninist ideologues from those who were driven into the hills by economic deprivation. The speech on Wednesday, as one Western diplomat said, was one of "presentation."

WORLD BRIEFS

France Seizes 20 Algerian Dissidents

PARIS (NYT) — The French police said Wednesday that they had arrested 20 Algerian dissidents who reportedly are close to Ahmed Ben Bella, the former Algerian president, and that some of them faced immediate expulsion.

The police said Tuesday that 13 of the dissidents had been arrested. Some of the prisoners were French citizens who have lived in France for more than 30 years. The recent expulsions were the most dramatic in a series that began last month under a new anti-terrorist law approved after a series of bombings. The law allows undesirable individuals to be expelled by police order.

Security Minister Robert Pandraud said Wednesday that 1,700 foreigners had been expelled from France since the law was approved Sept. 9. The police roundup of the Algerian dissidents came three days after 101 Malians were expelled for being in France illegally. The Malians were flown out of Paris on Saturday night.

Managua Says Hasenfus Trial Is Fair

UNITED NATIONS, New York (NYT) — Nicaragua's foreign minister has asserted that Eugene Hasenfus, the American captured when a rebel supply plane was shot down over Nicaragua two weeks ago, could expect mercy from the court that is trying him in Managua.

The Reverend Miguel D'Escoto Brockmann, the foreign minister, said on Tuesday that if Mr. Hasenfus were being tried for similar crimes in the United States, "I would say we can expect no mercy." Mr. D'Escoto added that unlike the American-backed rebels against his government, known as "contras," Nicaragua was "not involved in the ordering of torture and death of any people."

Earlier, he told the Security Council that documents recovered from the plane's wreckage and Mr. Hasenfus's statements "have exposed an extensive infrastructure of U.S. government air support for the contra mercenaries." His appearance Tuesday marked the 13th time since 1982 that Nicaragua had brought the issue of U.S. support for the guerrillas before the council. On Monday, a Nicaraguan court charged Mr. Hasenfus with several crimes that carry a maximum sentence of 30 years.

Gandhi Reshuffles His Cabinet Again



Reuters
Arun Nehru

NEW DELHI (UPI) — Prime Minister Rajiv Gandhi reshuffled his cabinet Wednesday for the second time this year, bringing in seven new members and appointing a new foreign minister.

Mr. Gandhi dropped his cousin Arun Nehru, the minister of internal security, and moved to appease dissidents in his Congress (I) Party by shifting the party vice president, Arjun Singh, to the less powerful post of communications minister.

Shiv Shankar lost the Foreign Ministry portfolio, which went to the former industry minister, Narain Dutt Tiwari. The Ministry of Industry passed to Venkai Ray, formerly chief minister of Andhra Pradesh state, and the Ministry of Environment and Forests went to the former Haryana state chief minister, Bhaijan Lal. Mohsin Kidwai was transferred from the Transport Ministry to the Urban Development Ministry, replacing Abdul Ghafor.

Curfew Imposed in Northern Sri Lanka

COLONBO, Sri Lanka (AFP) — Sri Lanka imposed an indefinite curfew in the north of the country Wednesday as troops launched a drive against Tamil separatists, official sources said.

The curfew went into force at dawn and there was no indication when it would be lifted. It followed heavy fighting in the northwestern Mannar district last week where about 80 people were killed, mostly separatists, including the local leader of the guerrilla Liberation Tigers of Tamil Elam.

The sources would not disclose the nature of the current operation and only said that troops were "mopping up" after last week's clashes, sparked by a separatist ambush killing four soldiers and an airman. The separatists captured two wounded soldiers in the fighting and demanded they be exchanged for two of their members who have been held.

Angolan Rebel Addresses EC Rights

STRASBOURG, France (UPI) — Jonas Savimbi, the Angolan rebel leader, arrived in France on Wednesday for a six-day visit and told about 100 rightist delegates to the European Parliament that he hoped to open peace talks with the Marxist Angolan government.

Mr. Savimbi, whose visit to the parliament was protested by liberal members, said he hoped to take advantage of a cease-fire during the next rainy season in Angola to open negotiations. He said that both the rebels in his National Union for the Total Independence of Angola, or UNITA, and the government were responsible for deaths in the 10-year civil war, and that neither side should set conditions before such talks.

For the Record

Police in Rome used tear gas to disperse extremists who threw stones on Wednesday during an anti-nuclear march by about 15,000 people through the city. Two students were slightly injured.

The head of the Spanish Liberal Party resigned on Wednesday. José Miguel Bravo de Laguna was fined last weekend for stealing pyramids from a London store.

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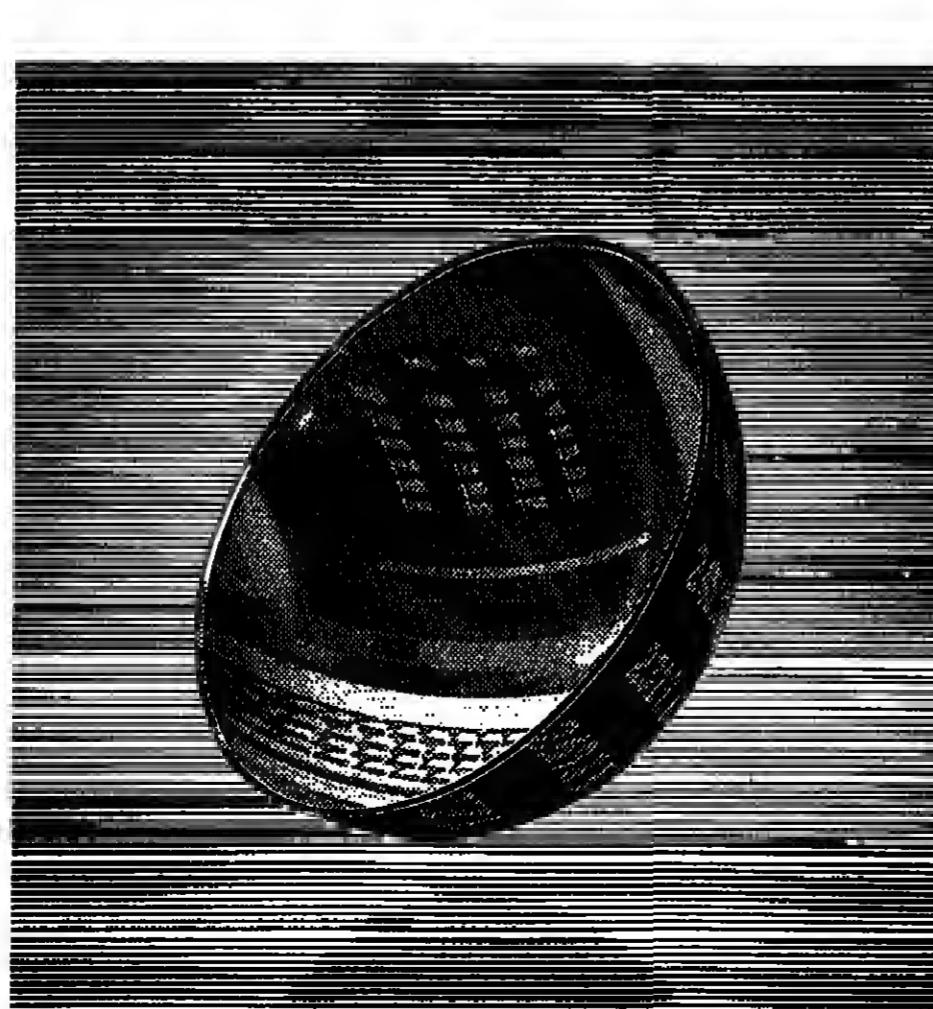
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• Capital & Reserves (in bn US\$)	3.8
• Branches Worldwide	1,410
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• Stockholders	245,000

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In a Pretoria Hospital, Wife Visits Soviet Pilot Of Jet Carrying Machel

By William Claiborne
Washington Post Service

JOHANNESBURG — The Soviet pilot who survived the airplane crash Sunday that killed President Samora Machel of Mozambique was visited in a military hospital Wednesday by his wife and a senior diplomat from the Soviet Embassy in Maputo.

A spokesman for the South African Foreign Ministry said that the pilot's wife, Nadejna Novoselova, visited her husband, Vladimir, and also saw the South African foreign minister, R.F. Botha, in his office. She was accompanied by Nikolai Karpenko, second secretary in the Soviet Embassy in Maputo.

The pilot's wife also visited him Tuesday night after what hospital officials described as a successful operation.

Mr. Botha said that a Soviet civil aviation team would be arriving in South Africa to assist South African and Mozambican safety experts in investigating the cause of the crash.

Reacting to an accusation by President Kenneth Kaunda of Zambia that South Africa was to blame for the crash, Mr. Botha said through a spokesman that the truth of the crash will be established by an international investigation.

Of the 10 survivors of the crash, three have returned to Mozambique.

Six remain at a hospital in Neopruit, two of them in critical condition.

Reporters have been allowed to see some of the survivors, but not to talk with them about the cause of the crash.

The crash occurred in poor visibility, just inside South African territory, as the twin-engined Soviet-built presidential jet made its approach in the Maputo airport. The president was returning from a trip to Zambia, where he had

China, Portugal Reach Accord on Future of Macao

Reuters

BEIJING — China and Portugal said Wednesday they had reached "broad agreement" in talks on the future of the Portuguese-run territory of Macao on the south China coast.

A joint statement issued after two days of talks said that negotiators for Beijing and Lisbon had agreed to set up a working group under the two government delegations for detailed discussion and revision of all draft agreements.

Informants close to the talks, which began in June, said that negotiators had made major progress on key areas of debate. But the communiqué, released by the Portuguese Embassy and the Chinese Foreign Ministry, gave no details of the agreement. Officials from both countries declined to

comment on the Macao issue.

Reports said that although the pilot initially said that the plane had been shot down, early indications from the investigation suggested that the aircraft got lost in bad weather. Further, they said, the pilot may have mistaken directional homing beacons at a small airport just inside South Africa for signals from the Maputo airport.

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The crash occurred in poor visibility, just inside South African territory, as the twin-engined Soviet-built presidential jet made its approach in the Maputo airport. The president was returning from a trip to Zambia, where he had



Lord Carrington, the NATO secretary-general, is flanked by Defense Minister George Younger of Britain, left, and Defense Secretary Caspar W. Weinberger of the United States at the NATO defense ministers meeting in Gleneagles, Scotland, on Wednesday.

Most NATO Defense Chiefs Back U.S. On Reykjavik Stand and Endorse SDI

The Associated Press

GLENNEAGLES, Scotland — NATO defense ministers on Wednesday backed the U.S. stance at the Reykjavik meeting and urged Moscow not to block the removal of nuclear missiles from Europe over the issue of the U.S. space-based anti-missile program.

In a communiqué at the end of a two-day meeting here, the majority of defense ministers from 14 of the 16 North Atlantic Treaty Organization nations supported the anti-missile system, the Strategic Defense Initiative.

SDI became the roadblock in Iceland for a possible U.S.-Soviet agreement on deep reductions in nuclear arms.

The Soviet bloc also has, by Western estimates, a 9-1 superiority in shorter-range nuclear missiles, capable of hitting targets up to 620 miles (1,000 kilometers) away.

At a news conference, Mr. Weinberger stressed that the United States would insist on having "a credible deterrence" to Soviet conventional forces and shorter-range nuclear missiles as the price for any agreement on the Reykjavik proposals.

"We strongly support the United States exploration of space and defense systems, as is permitted by the ABM Treaty," the communiqué said.

It expressed "warm appreciation" of President Ronald Reagan's "conduct of the talks and fully endorsed his bold attempt to seek far-reaching arms control agreements with the Soviet Union."

The communiqué that Mr. Reagan and Mikhail S. Gorbachev tried to

"Ministers called on the Soviet leadership to reaffirm its commitments not to hold an INF agreement hostage to any other agreement," the statement added. INF refers to intermediate-range nuclear forces.

The outcome of the meeting, the first NATO gathering of Oct. 11 and 12, was a victory for Defense Secretary Caspar W. Weinberger of the United States. He evidently allayed some West European misgivings that the cutbacks proposed in Reykjavik would leave NATO vulnerable to attack by superior Soviet conventional forces.

"We certainly hope to deploy SDI," Mr. Weinberger said.

"When we talk about negotiations with the Soviet Union, we do not give the Soviet Union a veto on whether we deploy or not," he added.

Critics charge the program is destabilizing and would be unreliable if it ever came to fruition.

In the absence of such steps, however, the general has been un-

Expulsions of Diplomats Set U.S.-Soviet Record

By Don Shannon
Los Angeles Times Service

WASHINGTON — Expulsions of Soviet and U.S. diplomats have occurred frequently since the Cold War began four decades ago, but Washington's ejection of 55 Soviet diplomats Tuesday was unprecedented in scope.

Although the British and Soviet governments recently expelled dozens of each other's officials, never have so many envoys become pawns in U.S.-Soviet relations.

The current multiple expulsions began in March, when the State Department accused 25 members of the Soviet mission to the United Nations of espionage and ordered them to leave by Oct. 1.

That deadline was pushed back until after the meeting Oct. 11 and 12 in Iceland between President Ronald Reagan and Mikhail S. Gorbachev. The last of the 25 had left the United States by Oct. 15.

Moscow reacted Sunday by accusing five U.S. diplomats in Moscow and Leningrad of "illegal activities," a code phrase for espionage, and demanded their departure.

The State Department's subsequent declaration of five Soviet diplomats in Washington and San Francisco as persona non grata and the expulsion of 50 others constituted the largest such action since President Franklin D. Roosevelt established relations with Moscow in 1933.

The five specific diplomats were expelled in direct retaliation for Moscow's action and can be replaced. The remaining 50 remain.

On Wednesday, Moscow again reacted by ordering five more U.S. diplomats to leave.

Before the latest incidents, the U.S.-Soviet record for expulsions was conservative when compared with that of other nations.

In 1963, 135 Russians were ex-pelled from 21 countries.

In 1971, Britain virtually emptied the Soviet Embassy in London by ordering the departure of 105 officials accused of spying.

France expelled 47 Soviet officials in April 1983 after the murder of a French counterespionage agent. Bangladesh and Iran each expelled 18 diplomats that year.

The 1980 census showed that the old industrial cities suffered huge losses in jobs and population in the 1970s, but many have since shown signs of recovery in the construction of new office buildings for financial, communications and other white-collar businesses, in the development of tourism and in the restoration of old neighborhoods by middle-class families.

But the census analysis and other government statistics showed that the cities have not reversed "white flight" from the central cities nor affected the large concentrations of minority unemployment in the cities. The rate in cities frequently is several times the national average.

In the five-year period, the government surveys indicated that Philadelphia, Baltimore, Detroit and Cleveland showed overall population losses. Of the six largest cities in the North, only Chicago, with a 78,000 gain, and New York showed population increases. All six cities showed a loss of non-Hispanic whites.

There are increasing job opportunities for accountants, stockbrokers, corporate lawyers and other knowledge-intensive occupations in these cities if there is little comfort to the unemployed high school dropout.

There is disagreement on how to repair the mismatch. The Reagan administration sought to establish what it called "enterprise zones" in depressed areas to lure in new industry with tax abatements and deregulation, but the measure was killed in Congress.

The administration is experimenting with moving the poor out of depressed areas by such devices as housing allowances that could be spent on rent anywhere in the United States. But this policy is bitterly opposed by political leaders who do not want to see their constituents reduced.

In combined central cities of the Northeast, the percentage of minority residents increased from 36 percent to 42 percent from 1980 to 1985, while the percentage of non-Hispanic whites decreased from 64 percent to 58 percent. In the Middle West, the minority percentage increased from 33 to 36, while the percentage of non-Hispanic whites declined from 67 to 65.

Slow racial integration in the suburbs began in the 1970s, continued in the 1980s but minorities still make up only a small share of suburban populations.

These data reveal huge losses among non-Hispanic whites in central cities of the North and their partial replacement through minority increases," said Mr. Kasarda. "Especially striking is the large increases in blacks in central cities of the Northeast and Midwest just at a time that their blue-collar job bases were shrinking.

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New York City, for example, has lost 239,000 jobs from 1980 to 6, a rise of 7 percent to 3.5 million. But manufacturing jobs, which in the past provided entry-level work for millions of poor immigrants, declined 108,000, or 22 percent, to 390,000. Service jobs, led by those in information processing that require higher levels of skills and education, increased 183,000, or 21 percent, to 1.1 million.

In the same period, New York City added 416,000 Hispanic people and 146,000 non-Hispanic blacks while losing 276,000 non-Hispanic whites, according to Census Bureau surveys.

In the period, the city had an overall population gain of 308,000,

7.4 million, of which 54 percent were members of minority groups — the Hispanic, blacks, Asians and others. In 1980, 48 percent were members of minorities, as against 36 percent in 1970, when the city had almost eight million residents.

The census figures, which have not been published by the Census Bureau, come largely from the bureau's Current Population Survey in March last year.

John D. Kasarda, chairman of the sociology department at the University of North Carolina at Chapel Hill, analyzed the figures from the bureau's computer tapes and supplied much of his data to the Joint Economic Committee of Congress. Its Subcommittee on Economic Resources headed by Representative James H. Scheuer, Democrat of New York, is examining the economic effects of these shifts.

If the trend continues, experts say it may lead to the "dual," which is home to the affluent and the poor, but has few middle-income people, formerly the majorities of city residents.

The old industrial cities are shifting from manufacturing centers to a focus on information processing and other white-collar centers.

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Jaruzelski's Drive to Broaden Government's Base Is Lagging

By Jackson Diehl
Washington Post Service

WARSAW — A campaign by General Wojciech Jaruzelski to broaden the political base of his government and prepare Poland for a new economic austerity program appears to be faltering only one month after the dramatic release of all political prisoners, politicians and diplomats here.

The freeing of activists from the banned Solidarity trade union, including a number of senior leaders and intellectual advisers, won General Jaruzelski plaudits both at home and abroad and seems likely to produce a significant improvement in relations with the United States and other Western countries.

However, the breakthrough that the government hoped to achieve in the long-standing political stalemate now appears remote.

Instead, the formation of a new above-ground organization by Solidarity leaders, and the alarm apparently touched off in Moscow, have made any major compromise between government and opposition virtually impossible.

Government and Roman Catholic Church officials continue to negotiate in the hope of agreeing on the creation of new institutions or movements that could form a legitimate political "center" between Solidarity and the Communist Party.

However, after successfully managing the communist Polish United Workers' Party congress last June, the general appeared determined in reverse public apathy and the economic stagnation that was setting in.

The foundation of General Jaruzelski's new strategy is a tough economic program meant to restore a rational balance among wages, prices and consumer supplies, ease the burden of \$31 billion foreign debt, through an agreement with the International Monetary Fund, and force efficiency on sluggish workers and bureaucratic managers.

Party sources say the program is now expected to be disclosed at a Central Committee meeting in late November.

To make the new economic measures work, and to minimize the risk of social unrest, authorities know they must find new support among workers and professionals.

able to jar Poland out of the pattern of polarization dating from 1981, when martial law was imposed to suppress Solidarity.

INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

A Wintry Jobs Scene

At the latest count Britain's unemployment reached 3,333,000, rising by more than 50,000 in a month. One might have thought this an occasion for lament. But the government sees the movement as encouraging. The total usually rises in September when summer school-leavers first register, and the rise this time was smaller than usual. So when the statisticians have made their seasonal adjustment unemployment is said to be falling. Those without a job may be less than impressed. Seasonally adjusted, the Great Lakes don't freeze, but Chicago can seem mighty cold in the winter.

France's government is also able to claim, after adjustment, a minor decline in joblessness. Employment has risen slightly as firms have used their ability to recruit young workers without having to pay the full social dues to the government. But this again will be cold comfort to the lengthening queue of those actually seeking a job, now more than 2.5 million. There are few countries in Europe where the tale is not the same or worse.

The expert international agencies are disturbingly unanimous that, on the basis of present government policies, no real letup is in sight. The OECD sees unemployment in Europe staying obstinately at around 11 percent of the labor force all next year, and the IMF has no more optimistic picture to offer. The European Commission tells the Community that the

rate will still exceed 10 percent in 1990. There is less unanimity about what, if anything, should be done. The IMF urges governments to stick with their present prudent policies in the hope that, as they borrow less to finance their budgets, private business will automatically become more buoyant. The OECD calls today's unemployment a perilous and intolerable scandal and insists that the current economic recovery (if there is such a thing) must be maintained. But its recipes for encouraging firms to become more labor-absorptive, by linking wages more closely to profits or by shifting the tax burden away from labor costs, would prove politically difficult in most countries. Suggestions for more direct action to stimulate demand are generally muted: They are just what the governments best placed to take such action don't want to hear.

But the European Commission has called loudly for policies to stimulate growth and mop up unemployment. It urges action to boost business investment. It also envisages higher public investment and tax cuts to raise private consumption: in present circumstances these may be an essential prelude to any meaningful attack on joblessness. This is not the first time the Commission has advised its governments to get their economies moving faster. Its advice has been ignored. It should go on offering it.

INTERNATIONAL HERALD TRIBUNE

Mozambique at the Brink

Samora Machel, killed in a plane crash in South Africa, had risen through the military struggle against the Portuguese to leadership of the party that has ruled Mozambique since independence in 1975. He held an African variant of Marxism, but his embrace seemed to loosen as he realized that Moscow could not provide him with the two things his country most desperately needed: development aid and protection against South African bullying. Seeing an opening for "constructive engagement," the Reagan administration launched a pragmatic drive to draw Mr. Machel, in President Reagan's words, out of "the other camp." In so doing he had to dodge the hot protests of American hard-liners who believe he should be arming Mozambican insurgents, not aiding a "Marxist dictator."

The Reagan policy seemed to be making slow, if irregular, headway. Then it began to be overtaken by the regional and international polarization that is the inevitable result, at least in the short term, of the sanctions campaign against Pretoria. South Africa retreated from its American-bro-

kened commitment to work out an accommodation with Mr. Machel, instead intensifying support for the insurgents. Just two weeks ago the South Africans, ostensibly responding to an African National Congress guerrilla action that they blamed on Mr. Machel, dealt him a hard blow by moving to send home Mozambicans working in South African mines. Meanwhile, the United States found itself losing the standing in Pretoria that it had earlier used to induce the South Africans to back off.

Mr. Machel towered over at a time of extreme national divides, gives his adversaries in and out of the country fresh advantage. South Africa's support of the rebels was already pushing resisting Mozambique back toward Moscow. It is a moment for Portugal, the United States and other democracies to indicate that there still is some kind of Western option. It is one last chance for South Africa, which denies complicity in Samora Machel's death, to demonstrate a modicum of good faith.

—THE WASHINGTON POST.

Good Immigration Law

They will start lining up at dawn next July 1, outside a church basement here, a courthouse there. Hundreds of thousands of illegal aliens, most of them Hispanic, will wait patiently to accept the United States' offer of amnesty. That is the reform part.

At about the same hour, Border Patrol teams will roll up to factories and farms where other illegals are thought to work. They will not stop with apprehending the workers. For the first time they will have hard words for the boss — hard words that will, after a warning period, be followed by stiff penalties. That is the control part.

Reform and control: They are the core of the immigration law that Congress passed last Friday. It is worth welcoming just for the blow it deals to 35 years of hypocrisy in law. It is worth embracing for the control, and fairness, it brings to immigration.

Almost 35 years ago, Texas legislators mused something called the "Texas proviso" into law: Illegal aliens were forbidden to work, but employers were not forbidden to hire them. To employers this has meant: Forget the law, you'll still get your cheap labor. To Mexicans who earn \$5 a week, jobs at \$5 an hour have constituted a money magnet. The illegal tide kept rising.

Over four years, the reform bill faced a hundred hurdles. It spelled Big Brother, critics once said. How were aliens to identify themselves? Americans would all need, horrors, an identification number! In time, it dawned on Congress that all Americans already have one, and gladly provide it — to

the new law will not work miracles but it will induce most employers to pay attention, to turn off the magnets, to slow the tide. That is why this legislation won such wide support, most notably from Senator Alan Simpson of Wyoming. Ten and 20 years from now, when the children of Freedon Day bear his name, they will think grateful, noble thoughts.

To undo the Texas proviso is to do justice. To legalize aliens already present is to undo hypocrisy. To close the back door against the illegal tide that so tries public patience is to offer fairness to millions waiting around the world for legal entry. By doing all this, the Immigration Reform and Control Act of 1986 does honor to America.

—THE NEW YORK TIMES.

Other Comment

Defense Is Popular Policy

Despite predictions of a political disaster for President Reagan in the wake of Reykjavik, his refusal to fall for Mikhail Gorbachev's carefully baited trap in Iceland is proving enormously popular. Polls show the public blames Mr. Gorbachev, not Mr. Reagan, for the breakdown in talks. They also show that the public, like Mr. Reagan, has no intention of signing away America's right to defend itself.

Current national policy is to respond to nuclear attack in kind. Ask yourself this question: If the missiles were headed toward the United States, would you rather shoot it down or fire off a nuclear warhead in the

direction of Moscow in retaliation, in the process killing millions of people?

—The Detroit News

Publicity Promotes Rights

Amnesty International maintained its reputation for objectivity with its annual worldwide survey alleging human rights abuses in 128 countries. What occasions some surprise is the hopeful note sounded in a preface. Amnesty said it was encouraged by the emergence of more than 1,000 rights groups and the proliferation of laws aimed at protecting prisoners' rights. That indeed is the hope of the Information Age.

—The Seattle Times.

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OPINION



Business Has a Role to Play in Making GATT Work

By Giles Merritt

BRUSSELS — The 92 governments in the world's GATT free trading system did a good job in Uruguay last month when they launched a new round of multilateral trade negotiations. Now it is up to big business to do as well:

Giant corporations often claim to be victims of the creeping protectionism that the forthcoming "Uruguay round" is intended to counter, but many of those companies have been the instigators of protectionist action. While politicians and diplomats draw up agendas for the five years or so of tough talking that lie ahead, the world's boardrooms would do well to look closely at their own positions.

If the Uruguay round is to be a success, companies must move quickly to reduce the political pressures they have been putting on governments to "protect" them from competitive imports. This goes in particular for multinational whose reputation as enlightened free-traders is nowadays quite undeserved. On both sides of the Atlantic, big companies that are definitely not in disadvantaged "rustbowls" industries have been calling for import curbs. And even Japan's world-beating high tech corporations are still shortsightedly protectionist when it comes to trade.

The route of leading corporations that no longer have clean hands makes interesting reading. It used to be only truly beleaguered sectors like steel, shipbuilding and textiles that demanded special treatment to keep out low-priced goods. In Europe today the electronics sector clamors for trade concessions, automakers are

protected by a web of restrictions and chemicals producers make 40 percent of all EC anti-dumping complaints.

In America the protectionist mood is worse still. Bodies like the Labor-Industry Coalition for International Trade and the Committee for International Trade Equity have gained much of their support in industries that would eventually hurt a lot if international trade suffered. Yet a survey of 295 U.S. companies by the Conference Board not long ago showed that two-thirds are now actively lobbying for more protection.

The mid-September agreement between the GATT trade ministers who met at Punta del Este to launch a new round of trade liberalization negotiations was an achievement. Deep-seated divisions between North and South and between food exporting

nations almost wrecked the initiative. The Uruguay round has a lot of lost ground to make up. As recently as 1980, only 6 percent of manufactured goods imported into the United States were subject to special restrictions, and for the EC the proportion was 11 percent. Now the figures for both are 13 and 15 percent.

About seven-tenths of the \$2 trillion in international trade conducted yearly inside the GATT system is done by multinationals corporations. According to experts at the New York-based UN Center on Transnational Corporations, the bulk of that trade is controlled in one way or another by little more than a thousand big companies. Their executives might recall that their worldwide companies may well owe their existence to the Dillon round, the Kennedy round and the Tokyo round.

International Herald Tribune

A Critical Assessment of American Managers

By Hobart Rowen

WASHINGTON — A book by the plain-speaking chairman of Sony, Akio Morita, is must reading for corporate America. "Made in Japan" cuts to the heart of the explanation for America's fading industrial leadership: failed management.

In the cagier book and in an interview, Mr. Morita claims the American corporate managers have lost sight of their basic responsibility to employees and customers. Instead of pursuing investments that sustain long-term growth, the main goal of management is a fast buck to satisfy stockholders, along with fat salaries and bonuses for themselves.

Mr. Morita gets in a telling blow to fellow author Lee Iacocca of Chrysler, who complains about the absence of a "level playing field" with Japanese car-makers, then makes deals to

buy and market Japanese cars — which costs American jobs.

"The remarkable thing about management is that a manager can go on for years making mistakes that nobody is aware of, which means that management can be a kind of cost job," Mr. Morita writes.

Somewhere, along the line, he learned that high volume at a modest profit is more rewarding than low volume at a high profit. "Years ago," he writes, "I was told by a European friend that if you had a fine book manuscript and knew you could sell 100 copies of the book, the European publisher's reaction would be to print 99 copies.... We would keep printing those books and sell as many as

we could. The more we printed, the cheaper the price would be, and with promotion and education we could create more demand..."

Mr. Morita is not alone in blaming management for much of America's economic headaches. Carl Icahn says that many chief executives have become bureaucrats obsessed with the exercise of personal power. David Halberstam, in his examination of Detroit's downfall at the hands of Tokyo, claims in his new book, "The Reckoning," that financial men and accountants interested in short-term profits, rather than engineers, have been in control at General Motors and Ford. That helped Toyota and Nissan take their customers.

Mr. Morita argues that management's key role is to motivate workers: "Once we have hired people, we try to make them understand our concept of a fair-sharing body and how, if a recession comes, the company is willing to sacrifice profit to keep them in the company.... They know that management does not lavish bonuses on itself [and] that there are no 'golden parachutes' for managers except a simple lifetime parachute or a life of constructive work."

His latest passion is to get the major countries to crank some stability into exchange rates. For businessmen, he likens recent erratic changes in the dollar's or the yen's value to a change in a golfer's handicap on every hole. He wants the industrialists to concentrate on "the money game" rather than on their real mission to invent, produce and sell.

By "the dollar-yen rate stays at 150," Mr. Morita told me, "Japanese labor will be more expensive than American labor, and American production will become more profitable than production in Japan."

He is already planning to move more Sony production to America.

He has been making Sony products in America for 25 years. He now agrees that Japan will have to redirect many of its energies away from export markets, in line with the government-backed Matsushita report, "and share the pain if the world's economic system is to adjust to new realities and become more equitable."

The Washington Post

More to This Session Than Met the Eye

By David S. Broder

WASHINGTON — The 99th Congress, which finally shut down and quit town last week, was deceptive. It seemed to be a simple blunder, but it accomplished reforms in major areas of government that will feel for years.

Both were able, in time of genuine crisis, to rise above party lines in an attempt to rescue the country from ruinous folly.

Mr. O'Neill was almost the first powerful, mainstream, urban Democrat to break with President Johnson on the Vietnam War and throw his weight behind the call for that tragically mistaken intervention. And in the constitutional crisis called Watergate, Mr. Goldwater was one of the decisive judgments — some would say the most important — in telling Richard Nixon that he had overstayed his time and overtaxed the tolerance of the American people.

The 99th Congress has left a heavier imprint on the history books than its day-to-day shenanigans would have led anyone to suppose. For all the divisions between the Democratic House of Representatives and the Republican Senate, for all the endless infighting with the White House that marred these last two years, Congress mustered the will to make structural changes that will produce benefits for decades in at least four fields.

It enacted a major overhaul of

the tax system, which will allow most working families to keep more of their income and nudge investors and businesses toward making more of their decisions on solid economic grounds — not so as to exploit loopholes in the code. The benefits for the United States in the increasingly competitive international market will be substantial.

In its final days the 99th passed a new immigration law which had its beginnings way back in the Carter administration. Even more than the tax bill, it represents a compromise among strong economic and political interests. But it creates a legal structure that reflects the realities of the U.S. relationship to the impoverished nations to the south, the changes in the U.S. labor force, the responsibilities of employers and the compassionate claims of the long-resident "illegal" aliens.

A third structural change, one in which Mr. Goldwater had a major hand, was the reorganization of the Pentagon, aimed at strengthening the Joint Chiefs of Staff and expanding the authority of field commanders. It is a rational attempt to build on the lessons learned from Vietnam through Grenada. Its sponsors hope it will make more likely that the vast infusions of money into the Pentagon produce a more effective fighting force.

Finally, the Superfund bill is a major commitment, financed in a balanced way, to clean up the life-threatening residue of the waning industrial age. It is a symbol that even in this conservative era, government and industry are prepared to meet their obligations to public health, not walk away from them.

Given the politically divided government that the voters mandated, these measures represent victories for bipartisan cooperation. Regrettably, no such sensible accommodation of defense funds to promote peaceful bickering. It would be the ultimate hypocrisy if, after reorganizing the Pentagon, Congress did not clean up its own house.

— Senator Barry Goldwater,

writing in *The Washington Post*.

IN OUR PAGES, 75 AND 50 YEARS AGO

1911: Women as Voters

PARIS — [In a letter to the editor, Mrs. Isabelle G. McKeown writes:] "Your account of the chairman of Father Bernard Vaughan at a suffrage meeting held on board the Minnehaha during its recent voyage to the United States shows that Father Vaughan is singularly wanting in 'savoir faire.' Asked for his opinion, he stated that his idea of the coming woman was not one who marched to the polls, but one who took care of her home and reared her children in the fear of God. If he does not agree with women suffrage, why take the chair?" The reason why some suffragettes wish to "march to the polls" is to protect the home and be able to legislation to watch over the educational and social well-being of the children for whom they are responsible."

Europeans Remain of Two Minds

By Josef Joffe

MUNICH — There are two things that Europeans dislike: too little arms control and too much of it.

Rule number one holds that West Europeans are always nervous when they face the maneuvers of the two superpowers. Rule number two states that they worry because they expect to lose no matter what the Big Two do — whether Washington and Moscow clash or cozy up to each other.

OPINION

Remember These Statesmen and Weep

By Philip Geyelin

WASHINGTON — To have been a young and working in Washington as a newspaper reporter in the post-war years was, as Hemingway once said of Paris, a "movable feast."

The sense of having borne witness to a golden age in the conduct of American national security affairs stays with you for years. It conditions what you think of everything and every public figure that follows. It establishes a standard against which poorer policies and lesser policy-makers are measured and almost invariably found sadly wanting — so much so that you begin to wonder whether nostalgia isn't playing you false.

It isn't, alas. You can chalk it up to whatever you like: a collapse of public confidence in institutions; the cheapening of statescraft and statesmen by the information revolution; weariness or sadness (the Vietnam syndrome); an award-winning preoccupation with material things and private gains.

But you cannot escape the clear message of a new book, "The Wise Men: Six Friends and the World They Made," something of great value, something too somber to be captured in catchwords like honor, duty, country, has somehow reached out of the traditional planning grounds of national security policy.

Those of us of a certain age will find in this book a richly anecdotal trip down memory lane. Younger people who may think that the contemporary conduct of international affairs is more or less the way it has always been will find themselves on a monumental voyage of discovery — monumental in its scope and concept, and also in its ambition.

That the reach of "The Wise Men" exceeds its grasp is forgiveable. In the way that co-authors Walter Isaacson and Evan Thomas have chosen to tell their story, they have almost necessarily sifted off more than they can chew.

What they have bitten off is really six biographies, each one of which could have been the subject of a useful volume, instead, the lives of Dean Acheson, General Harriman, Robert Lovett, John McCloy, Charles Bohlen and George Kennan have been interwoven, too often trivially and in a way that tends to trivialize the central point about "the world they made" with their concept of Communist containment, the Truman doctrine, and the Marshall Plan ("their most and greatest achievement").

The labels and the stereotypes attached to them (Ivy League, Wall Street, Establishment, secret societies at college and exclusive clubs in later life, inherited wealth) link one to another or perhaps apply to several, but can by no means be stretched to fit all six. And so a few too many words are wasted on what make us superficial linkages.

Mr. Harriman and Mr. Lovett, for example, were cut, in a sense, from the same cloth. But Mr. McCloy was a poor boy from Philadelphia, and Mr. Kennan an insect-eating boy from Milwaukee. Mr. Bohlen was born with "social graces" and Mr. Acheson was the son of an

Episcopalian bishop. That they all wound up as card-carrying members of the postwar policy-making establishment, along with many others (George Marshall, James Forrestal, Paul Nitze or Llewellyn Thompson might as easily have been chosen), was due less to some common denominator of privilege, ethnicity or intellect than to a shared sense of what public service is all about.

There lies the central point. It is not that these two bankers, two lawyers and two foreign-service career officers and Soviet specialists "did not have to worry too much about the daily chore of child care, or about their wives' careers or about paying the mortgage," although that, as the authors note, was their good fortune. It was that while they relished government service, they did not "crave it merely to possess it."

The authors freely concede that history's judgment on the "wise men" will be mixed. In their zeal to build a consensus for a grand new concept of America's role in the world, a case can be made that they "left a costly legacy for successors who were neither as pragmatic nor as flexible when it came to balancing commitments with resources" — that "the men of the establishment sowed the seeds of both the Vietnam War and, ultimately, their own undoing."

The interweaving of these six remarkable lives may not have produced a seamless web; it is more of a patchwork quilt. But the design and the patterns are plain to see: The six shared loyalty not to presidents but to the presidency; the sense of themselves "not as public figures but as public servants"; the selflessness in times of crisis.

The authors' conclusion: "These certainly does not exist, and may never again, a breed of statesmen with the same synergism, the talent to work together in a way that transcends their contribution as individuals." If you care about the conduct of American national security affairs, look about you as you read this book and weep.

Washington Post Writers Group.

From Munich to Reykjavik

There is a historical parallel between the Munich summit of 1938 and the recent Iceland summit, both of them hastily arranged traps cleverly baited by "authoritarian" regimes. But there is likewise the historical difference that Neville Chamberlain said yes and came home waving an agreement and crying "Peace in our time," while President Reagan, to his honor, said no.

HANS LAMBERG,
Malmo, Sweden.

The Reagan administration argues that nuclear arms have kept the world safe from superpower confrontation. But it has not been nuclear weapons that have kept us safe, for they do not make the decisions that bring about war. Rather has been the world leaders who have had the intelligence to forestall their usage. Two ideologically opposed

powers have both kept their fingers off the buttons, and both deserve credit.

It is with illusions that people view their foes. We can only hope that our leaders will be able to overlook what is not there and start to trust one another.

KEITH HARWOOD,
Mouans, France.

Meanwhile at the Morgue

Hebe Dorsey's account of the mood in Paris at the spring-summer collections, amid of stringent security measures, was most poignant. ("Safety Takes Joy Out of Opening Show," Oct. 17). Fighting back tears, one reads that the Coor Carrée of the Louvre, usually a mad scene with groupies, crazies and assorted hangers-on, was as quiet as a morgue. As the morgue that held the remains of recent terrorist victims?

CAMERON M. WATSON
Paris

About Tax Equalization

Sherry Buchanan's article (*Living Abroad, Oct. 17*) on the increasing cost to U.S. companies of providing tax equalization benefits to their expatriate employees under the new U.S. tax reform fails to point out the serious flaws with almost all of such programs.

Nothing makes less sense in the real world but more sense to a U.S. expatriate than doing tax planning based on a "hypothetical tax burden." The expatriate tax planning decisions are necessarily designed to reduce his hypothetical tax (which he absorbs) but fail to do nothing to reduce his actual U.S. or foreign income taxes (which the employer pays). As a result, the employer picks up a very expensive tab for the difference. Because this difference becomes a taxable benefit, the cost of keeping the expatriate executive abroad can spiral.

What "most" U.S. employers do not

seem to understand is that their tax-equalization programs have been designed with the tax end in front. They should reverse their programs by giving their expatriates a plan that awards them for keeping their actual U.S. and foreign tax burden at the lowest legal amount. When the employee's actual income tax is less than his hypothetical tax, the employer should let him or her pocket the difference. This will give the expatriate executive an opportunity to obtain real benefits from a state tax planning, and, at the same time, save employers substantial tax costs when they send their executives abroad.

RICHARD A. VAN HAM

Paris

They Were Free to Go

Most comment on the "defection" of American scientist Arnold Lockman and his family to the Soviet Union has

missed the most important points. He needed no exit visa, and left when and as he pleased. He lost his job first, and then decided to leave; in the Soviet Union it is generally the other way around.

JULIUS I. FOX,
Kfar Shmaryahu, Israel.

To Each His/Her Sport

The greatest spectator sport in the world is, of course, horse racing. The second, unbeknownst to Victor T. Stubb's (*Letters, Oct. 16*), is baseball, which is experiencing an attendance boom. It is played not only in North and South America but also in Asia and Western Europe; recently the International Olympic Committee added baseball to the 1992 Games. Meanwhile, enthusiasm is growing in Europe for American-style football.

HERBERT JOHNSON,
Paris

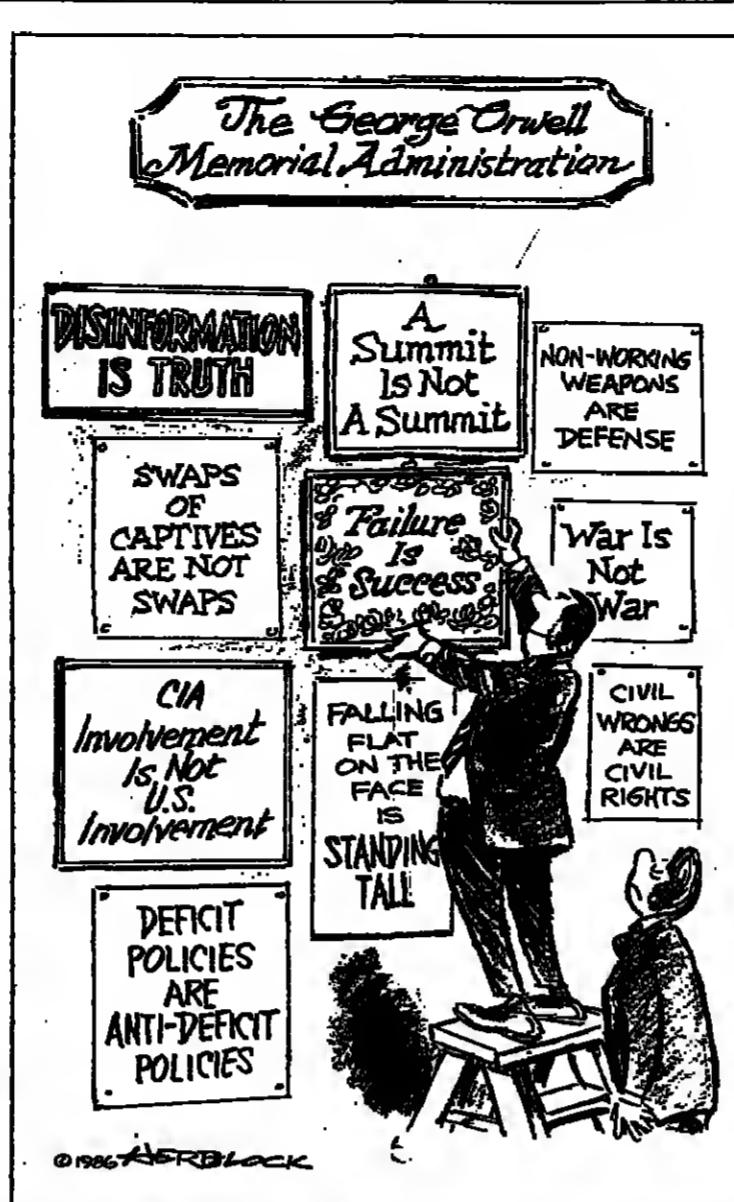
I have read the International Herald Tribune for 20 years, but I am appalled by the preponderance you give to American football and baseball. I know that many others among your readers share my feelings. What a waste of space!

J.C. CRAWFORD,
Cannes, France.

My, my, how testy one becomes when deprived of his cricket news! It has obviously escaped the notice of Mr. Stubbs that the International Herald Tribune is an American newspaper. Quite understandably, it reports on American sports that we American expatriates know, love and miss — no matter how minuscule they may be on the international scene.

TERESA MEYER-HOYE,
Armen, Switzerland.
Cricket is boring.

JEFFREY S. JORDAN,
Zurich



Baseball? In Croquet at Least You Actually Whack Balls

By Jim Fain

WASHINGTON — Baseball is an elaborate hoax like Halleys comet — all hype, no beef. It survives as soporific for insomnia and therapy for souls intellectually overwhelmed by baseket-waving. A sport it ain't.

Currently this terminally torpid travesty is engaged in a comatose pageant it bills with unconscious irony as the World Series. Absence of consciousness is indispensable to baseball; without its

the energy to throw a ball, it is unrealistic to expect anyone to duck. The antidote so far has been to stop sales in the seventh inning on the assumption, apparently valid, that baseball devotees either can't count or are incapable of storing up an inventory.

The Japanese, who imitate all U.S. follies, are too energetic to doze between pitches. They spice up the sloth by putting more balls on their TV screens than a digital-dashboard Buick. Lifetime batting averages, camera-gun speed-of-pitch indicators (probable lies but who cares?) and the latest wind drafts off Mount Fuji relieve the tedium of wondering if someone is ever going to throw a ball so someone can foul it off.

In the United States baseball's slow-motion studies of earnest if dimly lit faces being scratched, ears tugged and jaw muscles languidly attempting to deal with bubble gum give employment to many of my journalistic brethren and thus are not without redemption. Only in politics are so many high-sounding words devoted to so little. Baseball's perfect vacuum of substance and action provides an excuse for writing cute phrases. Hence the type. As Einstein said, we all got to be somewhere.

Still, I think it's time to take a quantum jump and crown croquet the American pastime. Compared to baseball, it's fast-paced and competitive. People actually whack balls. You don't see silly stuff like bunts, balks and walks in croquet. If the coronary rate soars, this supports segments of the economy but is dangerous in such a languid environment. When some soured fan summons

Cox News Service.

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YI 19

Afrikaner Cleric 'Emigrates' to Black Area

By Allister Sparks
Washington Post Service

MAMELODI TOWNSHIP, South Africa — The Reverend Nico Smith of the Dutch Reformed Church moved late last month.

His new home is only three miles (five kilometers) from the one where he used to live. But he moved reflectively in his cluttered sitting room a few days after the move: "I feel as though I have emigrated. This is another world."

In terms of social distance, Mr. Smith has made the longest journey of any Afrikaner, becoming the first to live in a black township. Under South Africa's Group Areas Act, it is illegal for a white to live in a black township, although a handful of non-Africans do so. It took Mr. Smith more than a year to be

granted permission to live in Mamelodi. "I did it," he said, "because as minister to a black congregation I felt it was important to live among the people of my parish."

"I have been their minister for 12 years. My wife and I have been coming here and meeting them in their homes, talking to them about their lives. We have listened to so much misery."

"But then we would return in the evenings to the safety of our white world. It made us feel like visitors instead of people who really belonged."

For Mr. Smith, the move is the culmination of a long personal trek. He was brought up in a conventional Afrikaner home with all the separatist ideas about race common to his people.

He became a minister in the powerful Dutch Reformed Church, which provides a theological justification for apartheid, was invited to join the elite Broederbond secret society, and finally became head of the church's seminary at the prestigious University of Stellenbosch.

In Afrikaner terms, he was at the top of the tree. But then, he said, he began an agonizing process of soul-searching as his Christian convictions came into conflict with the realities of apartheid as he saw them in practice.

It is a process that has wrought change in a number of domains, as Dutch Reformed pastors are called, notably Beyers Naudé. Mr. Naudé is the former church moderator who is the best-known Afrikaner dissident in South Africa and a close friend of Mr. Smith.

Mr. Smith left his job at the seminary, joined the black branch of the church and became its minister in Mamelodi township outside Pretoria.

Now, at the age of 57 and after two years of battling the authorities to break through the segregation laws in reverse, he has built a house in Mamelodi and moved in with his wife, Ellen, who has a job as a child psychiatrist in a nearby black hospital.

The couple live there alone. Their three daughters are grown up and have left home, and two are married with children of their own.

Crossing the apartheid barrier between the white and black living areas of South Africa is indeed like crossing an international frontier separating first and Third World countries. Few whites ever cross that frontier even temporarily.

"Many old friends think I'm mad," Mr. Smith said. "They ask if we're not afraid."

But he said he was not frightened. "You only fear something that is unknown to you," he said.

The Smiths have been warmly welcomed by the black community.

"We've been quite overwhelmed," Mr. Smith said. "People have been calling on us ever since we arrived to welcome us and bring us little gifts. Many have said that this is what they would like to see happen in the whole of South Africa. We've not had a single instance of hostility."

Mr. Smith acknowledges life in Mamelodi is dramatically different from the comfortable Pretoria suburb of Meyer's Park where he lived before.

Mamelodi is a ghetto township of about 300,000 inhabitants. Most of them commute to work in Pretoria by day and return each night.

"It's really a labor camp," said Mr. Smith. "This is the white man's labor force and we have locked them in here with more than 600 different laws and regulations."

Mr. Smith is aghast at life in Mamelodi.

He is aghast at life in Mamelodi.

July, 1986

SCIENCE

The Silent Twins: A Study of Double Torment

The twins said not a word apart from a few grunts which the court interpreted as pleas of guilty. The legal pantomime went on around them without touching them.

By Oliver Sacks

THE scientific study of twins is little more than century old, and was inaugurated by Darwin's cousin, Francis Galton. Galton was the first to cast a Darwinian eye on the inheritance and heritability of man's highest functions. Through the study of twins — especially identical twins, early separated and separately reared — it would be possible, wrote Galton, "to weigh in just scales the effects of Nature and Nurture, and to ascertain their relative shares in framing the disposition and intellectual ability of men." He concluded, with reservations that Nature here showed itself far stronger than Nurture.

Galton perceived that the lives of twins seemed to lie under a sort of fatality, but he saw this as wholly constitutional and inborn. It was reserved for a succeeding — dare we say Freudian? — generation to see that there was another fatality: the special twin relationship, interaction, "situation."

The twin bond was minutely examined by Dorothy Burlingham, the lifelong colleague of Anna Freud. She opens her book "Twins" with a consideration of the common (but oddly overlooked) fantasy of having a twin, and its contrast to the actuality: "In the fantasy, the relationship to the twin is imagined as an untroubled and unchanging one. Observation of reality shows the twin relationship threatened by negative and aggressive feelings, which manifest themselves in competition, rivalry for the parents' love, jealousy, and the wish to dominate the other. . . . Yet the need for the twin makes each partner adjust and adjust to the personality of the other. In this manner the twin relationship becomes the closest known tie between two individuals."

Usually, twins are able to differentiate fully, to become complete individuals while maintaining this singular tie. But sometimes this tie may become pathological — Miss Burlingham speaks here of the twin-pair becoming a "twin-team" — "twin-gang," feeling "doing everything together, caught in a helpless entanglement of互相依存."

In 1982 Marjorie Wallace, writing for The Sunday Times of London, found herself the reporter of a singular case — the trial of apparently mated, identical twins, charges of arson and theft. The twin, tiny and vulnerable, said not word apart from a few grunts which the court interpreted as pleas of guilty. The unemotional legal pantomime went on around them without touching them."

Jane and Jennifer Gibbons were sentenced to indefinite detention in Broadmoor, a notorious institution for the criminally insane. The lack of this sentence, combined with the strangeness and apparent implessness of the twins, moved Ms. Wallace to investigate — to look at the entire life histories of the twins, and, above all, to explore their extraordinary inner worlds.

Her investigation with affinities to case history, a psychoanalysis, a detective story and a novel, is unfolded in her book "The Silent Twins" (Prentice Hall Press). Such an investigation could never have reached the depths it did through the writings of the twins, who had been no intimacy in what they were anything more

than ordinary delinquents. But Ms. Wallace, visiting their home, found "a small room full of black plastic dustbin bags . . . an extraordinary collection of diaries, typed manuscripts of stories, novels, poems, illustrated strips and books of drawings." These writings of the twins to some extent form the core of this book.

The twins' birth, their parents, their early years, seemed unremarkable enough. Their father, an intelligent if remote West Indian, worked as a technician with the Royal Air Force; their mother is described as "sensible and innovative." They had three children before having the twins, June and Jennifer, in 1963. Though life appeared comfortable and easy enough on the surface, there must have been special problems and strain — their father, one of the very few black West Indians in the air force, continually moved his family from one posting to another. We are told very little, too little, of the earliest years of the twins, only that they were "full of life and played happily together, deeply involved with one another, but they were late talking. By the time they were three years old they were only able to put together the simplest two- or three-word sentences and even the few words they knew were indistinct."

But curiously, their parents were not particularly worried, and in every other way they seemed healthy and happy. When they were 5 and in school, their teacher noted they were "inseparable," and would not talk to her, though they talked to other children. But there was still, extraordinary though it sounds, real anxiety in either the mother's or the teacher's mind. The twins were "very shy" — that was all there was to it. It was only by the time they were 8½, and transferred to a new school, that the severity of the twins' problems, suddenly exacerbated, became undeniable.

They found themselves laughed at in class and bullied and beaten in the playground. They were forced to cling more tightly to each other, to strengthen the walls of their township. They stopped trying to communicate with outsiders and, even within the family, became more isolated, chatting away by the hour to each other and their dolls in an unintelligible secret language.

These matters might have rested had it not been for a perceptive school medical officer who had occasion to give the twins, and all the other children, vaccinations. Neither twin showed any response when he vaccinated their arms; he described them as "zombies" unlike any other cases he had seen.

Profoundly disquieted, he arranged for the twins to be sent to a psychiatrist, a speech therapist and surgeon (to cut an alleged "tongue"). The observations of the speech therapist were the most penetrating: "There was a sort of game going on. I could see June dying to tell me things. Then something would happen. Jennifer was stopping June. . . . The thought entered my mind that June was possessed by her twin."

The twins finally recognized as peculiar casualties, were removed from school to a local center for special education. From the parents' not being "unduly worried" to the psychiatrist's diagnosing "cultural gap" and "tongue-tie" and scores of incidents thereafter, "The Silent Twins" gives one the



Jennifer, above far left, and June at Broadmoor; above, as babies; left, drawings done by Jennifer while in detention.

perspicacious than any psychiatric reports."

Broadmoor has a system for "psychopaths" or "hardened criminals" (as the twins, absurdly, were called in court): "Behavior Modification" — an essentially Pavlovian regime of reward and punishment, punishment mostly, guaranteed to break the spirit; and major tranquilizers (neuroleptics), apt to produce a vacant, Parkinsonian deadness. And to these were added separation, for the twins. Separation, behavior modification and neuroleptics are now, apparently, "working." The twins behave themselves, obey the rules — and broken, dailed, they have ceased to read and write. This seems to be the end of the line. One of Jennifer's last entries, before she gave up her pen: "What a senseless degrading havoc I have made of my poor sweet human life."

This is the remarkable and tragic story Marjorie Wallace has gathered and brought together.

That she was able to talk to the twins themselves, in the face of a willful mutism they had presented to the world since the age of 8; that she was able to get through their barriers and enter their singular, often tormented world, is testimony to something extraordinary in the author herself. Thus, it is not just the story, which over a three-year period she meticulously reconstructed, but the remarkable way in which she allows us to enter the twins' minds and perceptions which make "The Silent Twins" unique of its kind. It is the most detailed portrayal we have ever been given of the inner worlds of greatly afflicted and tormented identical twins.

Oliver Sacks is a neurologist. His most recent book is "The Man Who Mistook His Wife for a Hat." He wrote this for The New York Times Book Review.

IN BRIEF

Early Test Developed for Dyslexia

NEW YORK (UPI) — Pediatricians have developed a new test using lights and a computer to identify dyslexia in pre-school children. Children with dyslexia have trouble learning to read because of difficulty recognizing patterns of letters. The condition is usually diagnosed after one or two years of school, according to Dr. George Pavlidis, associate professor of pediatrics at Rutgers Medical School, who helped devise the test.

Often children with the disability are far behind their classmates in reading skills by the time they are diagnosed, he said. In the new test, children too young to read are asked to follow sequences of lights, which are considered a substitute for letters and words. The children's eye movements are tracked, recorded and analyzed by a computer. Dr. Pavlidis said a standardized version of the test could be ready for distribution within a year.

Child Obesity: Don't Blame Parents

NEW YORK (NYT) — The popular notion that overindulgent parents are the cause of childhood obesity has been dealt another blow. Earlier this year, researchers at the University of Pennsylvania, who studied adopted children and their adoptive and natural parents, showed that genetics had a far greater influence over children's body weight than did environmental factors.

Now researchers from the University of Missouri have found no relationship between infant feeding practices and childhood obesity. Neither did parental attitudes toward food and its non-nutritive uses have any connection to children's weight problems. Thus, parents who bottle-feed their babies and introduce solid foods early in infancy were no more likely than others to have overweight children. And parents of overweight children were not any more likely than others to endorse the use of food for reward, punishment, soothing or affection.

The study, conducted among 94 preschool children and their parents, was reported in this month's issue of the Journal of the American Dietetic Association. The research team, headed by Ruth E. Patterson, cautioned against simplistic assumptions about the causes of childhood obesity, which they found more closely linked to low educational status among parents than to any other environmental factor examined.

Close-Up Shots of Distant Galaxies

NEW YORK (NYT) — Lofted to the top of earth's atmosphere by a balloon the size of a football field, a special telescope built by the California Institute of Technology has recorded the most detailed gamma-ray images ever made of distant galaxies and stars.

The gamma-ray telescope, built under the direction of Dr. Thomas A. Prince, was launched from the National Scientific Balloon Facility in Palestine, Texas, on Oct. 15, and returned to earth in Arkansas the following day. Since ordinary glass lenses cannot be used for focusing highly penetrative gamma rays, the telescope's equivalent of a lens is an array of 1,000 hexagonal blocks of lead arranged in a honeycomb pattern with spaces in between. Each of the spaces between the lead blocks served the same function as the pinhole in a pinhole camera, and for each picture, the faint images from all the holes were superimposed to produce a measurable image on a sensitive gamma-ray detector.

The objects photographed by the Cal Tech telescope included the remains of a supernova explosion, several distant quasars, a mysterious object called "Gemini" that emits intense gamma rays, a black hole, and the center of our own Milky Way galaxy. Many astronomers suspect that the Milky Way galactic center harbors a black hole, and future analysis of the Cal Tech observations may settle the question.

Drug Is Tested on Lung Embolisms

BOSTON (UPI) — Researchers say an experimental drug produced by genetic engineering technology appears highly effective in dissolving blood clots in the lung, a problem that causes the deaths of 50,000 people a year in the United States.

If research confirms the initial findings, scientists said the drug could reduce the number of deaths from pulmonary embolisms. The drug, called rt-PA — recombinant human tissue-type plasminogen activator — dissolved clots in 37 of 40 patients treated in a study at Brigham and Women's Hospital here, according to a report in the British medical journal Lancet.

"It is extremely effective and appears to be quite safe," said Dr. Eugene Braunwald, chief of medicine at the hospital. "We think it's a significant improvement over what's available for a very common problem." Another drug, streptokinase, is used to dissolve clots but is only effective in about half the patients and often causes excessive bleeding, he said.

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Hong Kong: A Delicate Balance

IN THE NEWS

April 21, 1984: U.K. Agrees to Transfer of Sovereignty

British Foreign Secretary Sir Geoffrey Howe declares that Britain would relinquish sovereignty and administrative powers over Hong Kong to China in 1997, when the British lease on the colony expires. The announcement marks the first official statement on the future of the territory.

Dec. 19, 1984: Thatcher Signs Accord With China

British Prime Minister Margaret Thatcher signs the Chinese-British accord in Beijing on the future of Hong Kong following two years of negotiations. In the accord, Britain pledges to give up all claims over the territory by 1997, while the Chinese agree to permit the territory to retain its separate economic and social systems, and enjoy a high degree of administrative autonomy for at least 50 years after the British departure.

June 1985: China Appoints Constitutional Committee

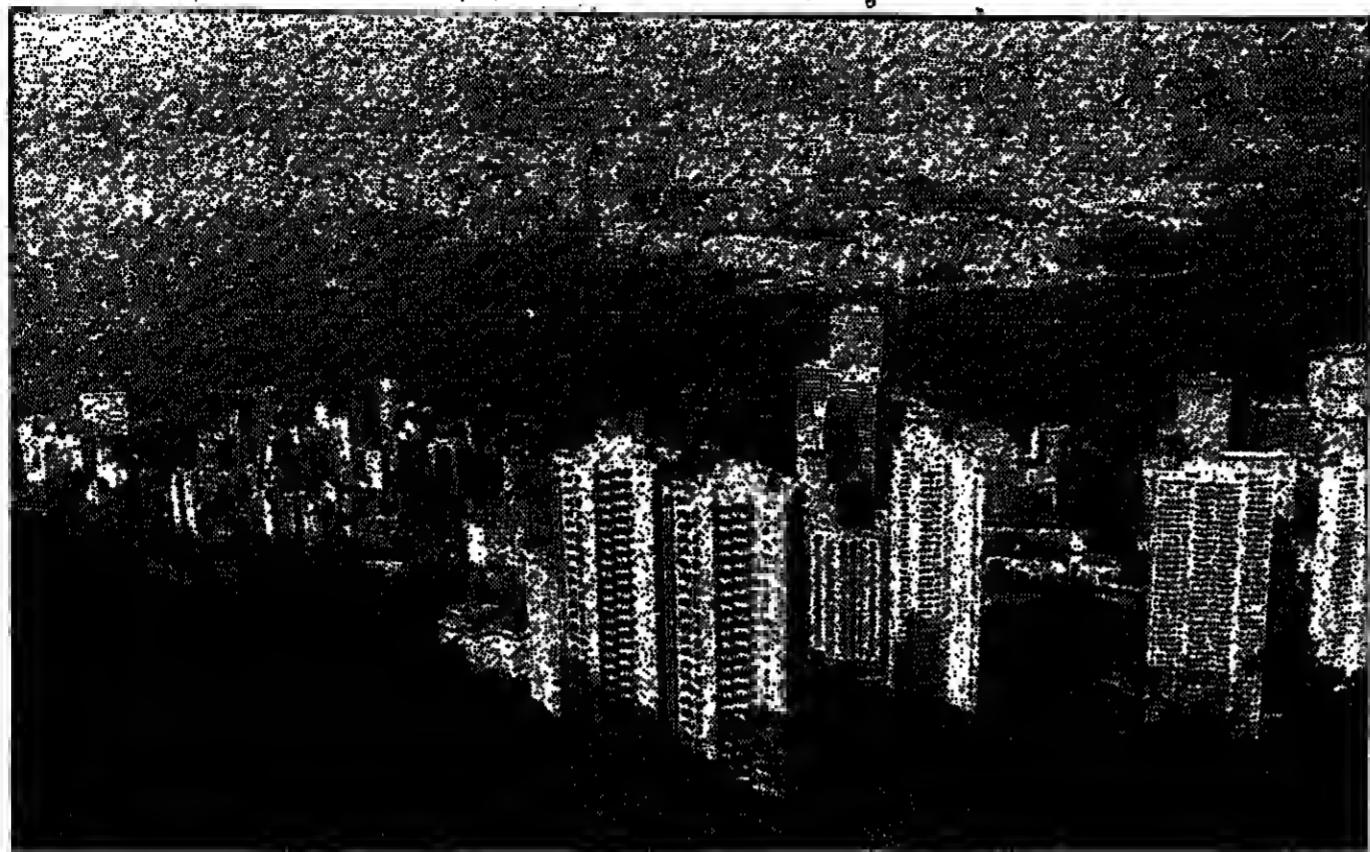
Beijing appoints a 59-member Basic Law Drafting Committee to prepare a constitution for the special administrative region of Hong Kong after China assumes sovereignty. The draft is to be published for comment in 1984, with a final version to be promulgated in 1990.

Sept. 26, 1985: Vote Held for Legislative Council

Hong Kong holds the first elections to its 4-member Legislative Council, formerly composed of appointed officials. Members of the colony's top law-making body are elected for a three-year term by less than 1 percent of Hong Kong's population.

Oct. 21, 1986: Queen Starts Visit to Colony

Following her trip to China, Queen Elizabeth II receives a lavish welcome in Hong Kong and indicates strong support for the British-Chinese accord that hands the colony back to China in 1997.



Skyscrapers lining Victoria Harbor on Hong Kong Island.

Exports Recover on Currency Slide

By Eric Ellis

HONG KONG — Although not a party to the Group of Five meetings of leading Western finance ministers in New York last year, Finance Secretary Piers Jacobs can thank his five counterparts for a reasonably trouble-free transition to his new post in June.

While still faced with a measure of political uncertainty, Hong Kong's emergence from last year's year recession is traceable chiefly to the

decision of the Group of Five to check the dominance of the U.S. dollar among world currencies, an effort the industrialized nations accomplished more than adequately.

Given the Hong Kong dollar's link to the U.S. currency, the territory is now enjoying a strong export-driven recovery, the force of which has surprised many local analysts.

During a recent address to the Hong Kong Society of Securities Analysts, Mr. Jacobs upgraded his official economic growth forecast from 4.5 percent to 5.6 percent. Since then, many of the investment houses represented in his audience have issued forecasts of their own in the 7-percent to 8-percent range.

"The reversal is pure Hong Kong," said a local bank economist. "Exporters were given an opportunity with the fall of the currency, and

they didn't waste any time making the most of it."

Indeed, if current forecasts prove accurate, the economy will have come full circle since 1984, when gross domestic product rose 9.3 percent, a figure that plummeted to 0.8 percent last year.

An emerging factor is the importance of foreign investment in Hong Kong, especially Japanese and American. These foreign investors want to use Hong Kong to get a foothold on the mainland. Also, according to local economists, some companies that had gone into China, only to find the operating climate there unpropitious, are retreating to Hong Kong.

Ironically, as the territory begins to make the

Continued on page 12

Colony's Quest For Confidence Shadows Upturn

By Patrick L. Smith

HONG KONG — Two years after Britain and China agreed on Hong Kong's transition to Chinese sovereignty, it would be easy to believe that this bustling territory is now enjoying a renewed sense of self-confidence and a secure vision of its own future.

The local stock market has reached a succession of record highs in recent weeks, property prices are rising and economic forecasts, as in previous years, have been routinely revised upward.

And as Queen Elizabeth's tour of China clearly demonstrated, both London and Beijing are eager to advance their 1984 accord as the successful conclusion to a prolonged and difficult diplomatic process.

But beneath the outward signs of certainty lies a degree of doubt that has not significantly declined since Prime Minister Margaret Thatcher of Britain first raised the Hong Kong question in 1982. What has emerged here in the past year is only a grim acceptance of a political future that is essentially without guarantees.

Confidence, the precious commodity that all sides have sought to preserve in Hong Kong, is increasingly recognized locally as a matter of the emperor's new suit of clothes: Many claim it is there, but no one actually sees it.

"Too many people in positions of influence are adopting the same attitude," said Martin C.M. Lee, who is among the

PATRICK L. SMITH is a Hong Kong-based financial journalist who is a regular contributor to *The International Herald Tribune*.

most outspoken members of the law-making Legislative Council. "Too many people say publicly that things are OK, while privately believing there is no future."

Chinese officials and many local political analysts assert that China is still unsure of how Hong Kong should be governed after 1997, when Britain's colonial leases expire. But Beijing has bluntly demonstrated that its "one-country, two-systems" formula, which it would eventually like to extend to Taiwan, far from open-ended.

Following the territory's first Legislative Council elections a year ago, for instance, senior Beijing officials began warning of "unnecessary chaos," as one said, if local political reforms were too extensive. Those elections were intended as a first step in preparing Hong Kong for 50 years of self-rule under Chinese sovereignty, as stipulated in the Chinese-British agreement.

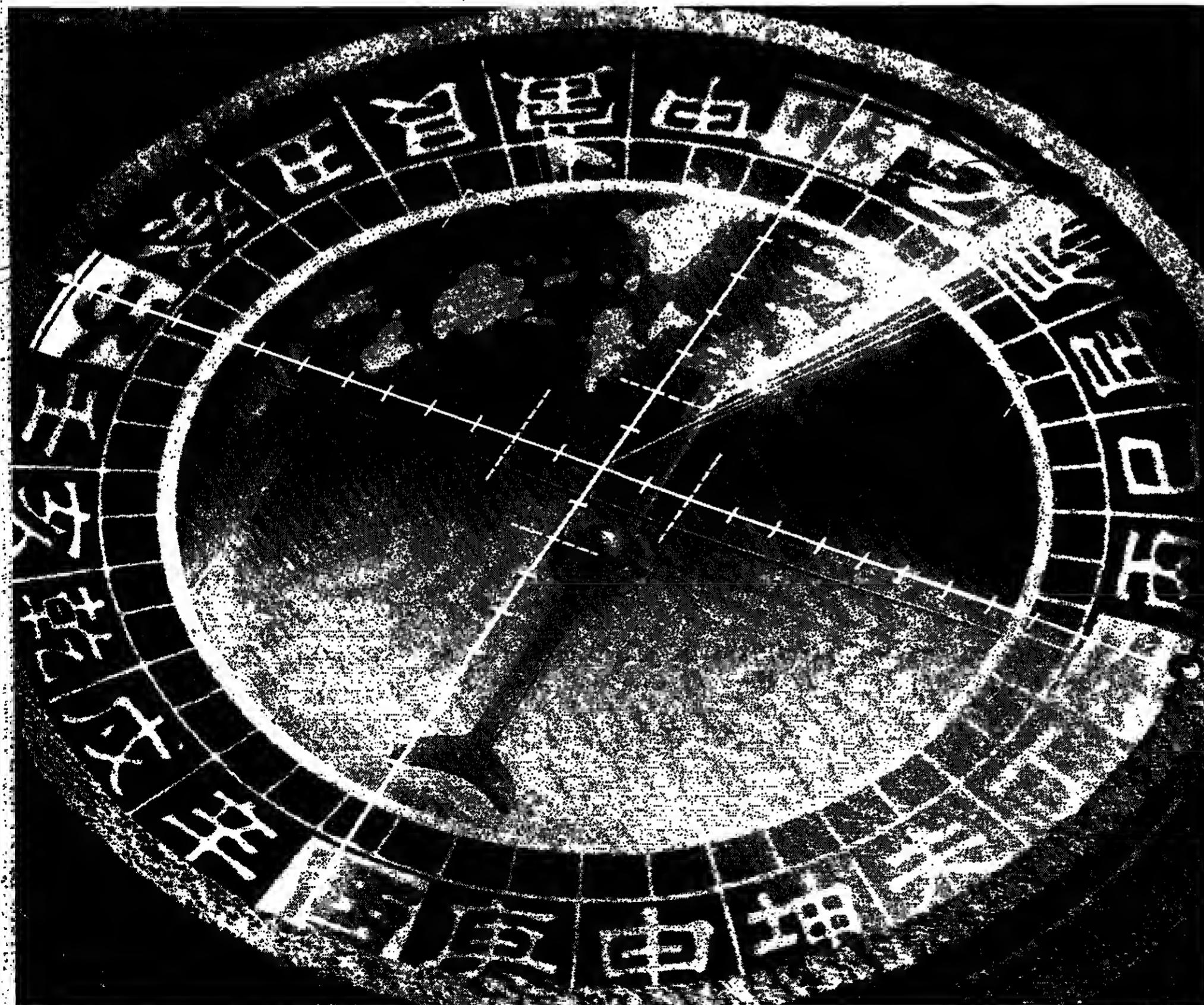
Similar statements accompanied local debates several months ago as to whether political parties should be permitted to develop in Hong Kong. Until recently, Beijing had refused to recognize the legitimacy of the Legislative Council, despite — or because of — the central place it is to occupy in 11 years' time.

The council now consists of 24 indirectly elected members and 32 appointed by the governor. It is to be a fully elected body by 1997, although the extent of the electoral franchise is not specified in the Chinese-British pact.

While the agreement assures Hong Kong of "a high degree of autonomy" under an elected government, it has become clear this year that Beijing is anxious to keep political reform to a minimum.

The lesson that China has learned is Confirmed on page 10

Well-navigated



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Banks Looking Fitter As Loan Volume Rises

By Robert Cottrell

HONG KONG — When arrangements were made for Queen Elizabeth's brief visit to Hong Kong this week, one engagement was scheduled without debate or hesitation: at 11:35 Tuesday morning, as the official schedule indicated, the queen would "visit the Hongkong Bank building for a panoramic view of Hong Kong."

Michael Sandberg was a year away from settling into the chairman's seat at the Hongkong and Shanghai Banking Corp. when the queen last came to Hong Kong in 1975. Now he is retiring.

With Mr. Sandberg, 58, will go a style of banking that has brought more than its share of risks and rewards: a clever, intuitive, entrepreneurial style. His successor, William Purvis, is, by contrast, a more cautious and conservative executive. Colleagues say his main interest lies in the nuts and bolts of lending.

But what the queen may not have seen from atop the bank's new headquarters, which was built during Mr. Sandberg's tenure at a cost of \$700 million, is clearly visible to a banker's practiced eye. Hong Kong looks a great deal better now as a credit risk than it has during the past four years.

"The economy has recently been showing extraordinary buoyancy," said George Corden, a Hongkong Bank spokesman. "It is export-led growth, and this has been reflected in export-related loan demand."

The internal shock to Hong Kong's banking system that started with the collapse of Hang Lung Bank in 1983 have now largely worked their way through the sector. The most recent banks to require government support, Union and Hong Ning, were so small as to have negligible effect on sentiment.

The surviving banks are looking fitter as their customers, by and large, return to health. Most big Hong Kong property borrowers are now generating more than enough to service their debts, and even seemingly hopeless casualties of the 1982-1984 bust, such as Trafalgar Housing, have found ways to shed assets, restructure loans and pronounce themselves back to business.

The bankers' biggest former nightmare, Hongkong Land Company, has halved its debt to a manageable 7 billion Hong Kong dollars (\$897 million) in two years.

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The shipping sector is still in deep trouble, but the worst is past, and bankers are at least grateful that the crisis was postponed until the political crash had been contained. Of Hong Kong's three biggest fleets, the World-Wide Group of Sir Y.K. Pao foresees the recession and came through unscathed. The Tung family's Orient Overseas group and the Chao family's Wah Kwong group have been forced to seek debt reconstructions from their bankers. The Tungs were the more warmly received.

While the assets of Hong Kong banks may not always have been of the highest quality in the early 1980s, loan officers will at least remember how easy it was then to put on new business. No local bank, by contrast, increased its loans as fast as its deposits last year.

Hongkong Bank, for instance, reported an increase of 17.4 percent in its lending, compared with a 20-percent rise in deposits. For Hang Lung, the figures were 8.2 percent and 17.8 percent; for the Bank of East Asia, 13.5 percent and 31.4 percent.

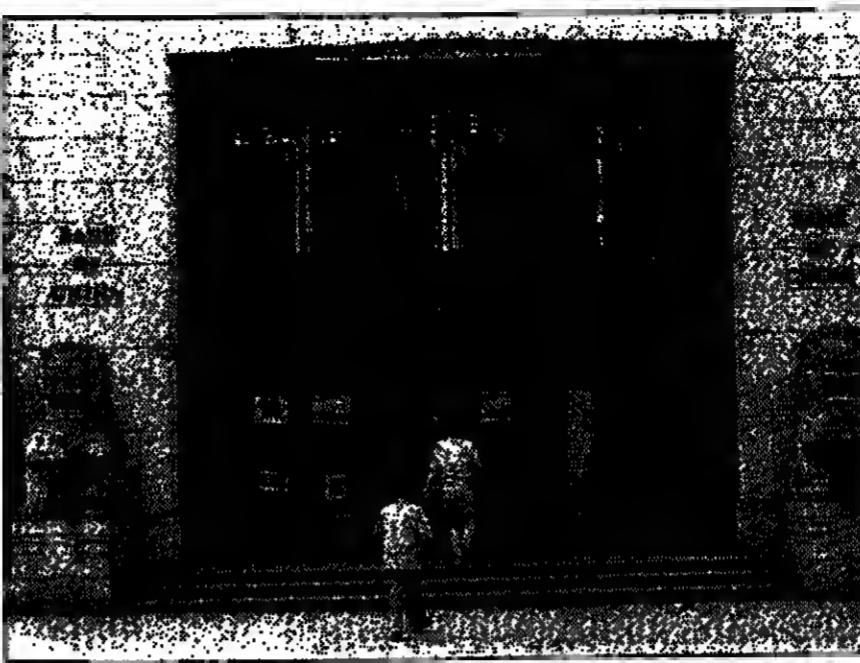
The Beijing-controlled NanYang Bank was closer to balance, with loans up 27.9 percent and deposits up 28.3 percent.

This year, local bankers indicate, export-related loan demand has picked up markedly since August. The 13-member Bank of China "family" of banks has been particularly busy adding assets over the past year, especially in small-company lending, residential property and trade finance.

The rise in the loans-to-deposits ratio means that banks have to work harder for profits. However, it should at least make local bankers worry less about the introduction of money-market funds to the territory, threatening for the first time in 20 years the stability of the interest-rate cartel that ensures that Hong Kong dollar depositors are offered the same agreed rates by all banks.

Money-market funds, which pool investors' deposits into large-denomination money-market instruments, were approved by Hong Kong's banking commissioner in June. The funds can generally offer investors a higher yield than deposit accounts although with the risk that the capital value of their deposit may rise or fall.

The banks, evidently feel that the funds could attract away depositors' money since, having failed to prevent their approval, many banks now offer money-market funds of their own. For the time being, the banks can afford to lose a few deposits without raising their



The 13-member Bank of China 'family' has been busy adding assets.

rates. But in time, the competition may become more entrenched, and banks may be forced to adjust to a significantly higher cost of funds.

The effect will be felt most by the retail operations of those banks, such as Hongkong Bank, Hang Seng and Bank of East Asia, that have a traditionally strong local deposit base and are able to make easy profits from lending to the interbank market.

Banks indicate that the funds have so far attracted about 160 million Hong Kong dollars, which would make them collectively equal to one of the smallest local banks in deposit terms.

The arrival of the money-market funds is one more reminder that commercial banks in general are still fighting a losing battle against the growing preference of depositors and lenders alike to channel funds to one another through the intermediation of banks.

The most complete triumph of "securitization" is one of particular importance to Hong Kong — international syndicated lending. Hong Kong acquired its reputation as an international financial center in the 1970s largely by the expansion of a locally based Hong Kong dollar capital market, fueled by issues from big borrowers, including the Hongkong Land Company and the government-controlled Mass Transit Railway Corporation.

Wardley, its main rival, Jardine Fleming, and the local offices of U.S. money-center

Countries that want to borrow nowadays pay fees on notes, not spreads on loans, and do their business in London. Those who still borrow straight have tended to do more of it to yen since Japan abolished its final monetary barriers in 1984, a factor that has helped make the Japanese banks the fastest-growing national group within Hong Kong this year.

Hong Kong banks didn't securitize less than they might, since there is no Glass-Steagall Act to keep them out of the securities market. (The Glass-Steagall Act does not permit banks to sell securities in the United States.) The Hongkong Bank came closest to globalizing its financial services this year by buying 100 percent of the British stockbroker James Capel and partly integrating it with its merchant-banking subsidiary.

But now, the two dozen or so groups that harbored higher ambitions are unlikely to advance much beyond their current status as loose-knit associations with little local political clout, according to political analysts and would-be politicians themselves.

So far, at least, political parties appear to be the most tangible casualties of the heavy-handed political approach that China has adopted toward Hong Kong for much of this year.

"The belief was that the source of political power to Hong Kong would be the people who live here," said Allen Lee, a Legislative Council member who publicly dropped plans to launch a party earlier this year. "That's wishful thinking these days."

Real 'Party Politics' Still Appear Unlikely

The Chinese Communist Party is unhappy at the prospect of an open challenge.

By Patrick L. Smith

HONG KONG — In the months following the conclusion of the Chinese-British accord on Hong Kong's future, the territory was abloom with new political groups, many of whom intended to transform themselves into Hong Kong's first political parties.

Their names alone were telling: the Progressive Hong Kong Society, Meeting Point, the Hong Kong Association for Democracy and People's Livelihood. Their platforms differed little; all of these "pressure groups," as they are termed locally, signaled hopes that some modest form of democracy was about to arrive on Hong Kong's doorstep.

But now, the two dozen or so groups that harbored higher ambitions are unlikely to advance much beyond their current status as loose-knit associations with little local political clout, according to political analysts and would-be politicians themselves.

Although the Chinese Communists have maintained a small presence in Hong Kong since the party was founded in 1921, it has grown rapidly to recent years, in part reflecting the arrival of numerous party cadres to run the mainland's expanding state enterprises.

But the party, which now has an estimated 4,000 or more members here, also actively cultivates the friendship of community leaders, sought to recruit locally and offered quiet support to candidates in local elections.

Mr. Lee's decision, and others made more quietly, came amid repeated hints from Beijing that it opposed the advent of "party politics" in Hong Kong. In June, the deputy director of Beijing's Hong Kong and Macao Affairs Office, Li Hou, suggested that the Chinese Communist Party would become openly active here if parties were to develop.

A senior official of the same agency said several weeks later that Beijing would consider legally banning party activities after 1997, when China is to assume sovereignty over the territory.

The motives ascribed to China's actions are various. Clearly, the Communist Party is unhappy at the prospect of an open challenge to its ideological supremacy on Chinese soil. Nor does Beijing want a politically diverse region under Chinese control to spark demands for autonomy elsewhere to China.

British officials have also suggested that among China's most serious concerns is the activation of the Kuomintang, or Nationalist Party, as an environment where parties are permitted to operate openly.

Although the Kuomintang has generally supported its own candidates in district elections here, it has not been a visible force in Hong Kong since the Communist victory on the mainland in 1949.

However China's concerns are ranked, the pressure it has exerted this year will be felt most directly in the Legislative Council. The virtual ban that has been placed on political parties, analysts say, will ensure that the council's future members, whether elected or not, will not coalesce into influential power bases.

Once this is assured, some council members believe, China may prove more flexible on the issue of elections and may tolerate some form of modest, issue-oriented political organization in the territory.

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But the party, which now has an estimated 4,000 or more members here, also actively cultivates the friendship of community leaders, sought to recruit locally and offered quiet support to candidates in local elections.

The strategy in place today is totally China-related," said George C. Bergland, a First Chicago executive who has headed CCIC for the past three years.

As China's presence in Hong Kong grows, many analysts are waiting to see just how various mainland institutions compete with one another. In particular, they note that both mainland partners in joint venture merchant banks, CCIC and the Bank of China, also have wholly owned merchant bank units.

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The other joint venture, China Investment, remains in a typical start-up phase. Its activities so far have been concentrated in loans, leasing and financial advisory work on the mainland.

CCIC, with loans now accounting for roughly half of its

Chinese Merchant Banks Are Expanding Presence

HONG KONG — China's higher profile in the Hong Kong financial scene is scarcely limited to the retail banking sector.

China also has five merchant banking operations here, includ-

ing a much-expanded branch of the China International Trust and Investment Corp., or CITIC, which was founded seven years ago in Beijing to funnel foreign investment and technology into modernization projects on the mainland.

While these institutions are currently minor players in the Hong Kong market, many established investment banks expect to be competing with them well before Beijing assumes political control over the territory 11 years from now. They are also viewed as an indication of the growing importance that Chinese enterprises place on Hong Kong as a funding center.

The most recent addition to

China's Hong Kong merchant banking family arrived in June, when CITIC took over Ka Wah Bank, an ailing local institution

with a relatively inactive finance

subsidiary that concentrated on the local mortgage market.

But more typical of the mainland's investment banking activities in Hong Kong are its two joint ventures. CCIC Finance Ltd., launched in 1980, is 40 percent owned by the Bank of China's Hong Kong branch and China Resources, a trading outlet for mainland products; the remaining 60 percent of CCIC is split between the First National Bank of Chicago and the Industrial Bank of Japan.

The other joint venture, China Investment and Finance Ltd., is an equal partnership between CITIC and the Royal Bank of Canada. The Western partners in both banks have long cultivated close ties with Beijing.

Both of these operations are small. And because they are aimed primarily at developing foreign investment in China, which has fallen by 20 percent

this year, growth is likely to be slower than it has been until now and the maturation process more difficult.

CCIC reported operating profits of 14.2 million Hong Kong dollars (\$1.82 million) last year, a gain of 33 percent, while China Investment, launched less than two years ago, earned about \$200,000 in the 12 months to Sept. 30, according to preliminary estimates.

But profits are only part of the picture. At this early stage, at least, one of China's primary goals is to use its Hong Kong ventures to train a corps of banking executives to meet the future needs of the mainland's financial system, which is being modernized.

With assets of \$42 million, China Investment remains in a typical start-up phase. Its activities so far have been concentrated in loans, leasing and financial advisory work on the mainland.

CCIC, with loans now accounting for roughly half of its

For another, it has crystallized the central issue facing what is now the first divided Legislative Council in Hong Kong's history: whether some of the council's seats should be filled through direct elections when its members are next chosen in 1988.

Advocates of direct elections say the council was unresponsive to public opinion in voting against a special session on the Daya Bay issue before the signing of contracts. Some politicians have long asserted that direct polls, and the public mandate they bestow, are the only means by which Hong Kong will be able to resist any efforts by Beijing to interfere with local affairs after 1997.

"The priority is to keep our system separate from China's," said one council member. "And China can't uproot a system that draws its legitimacy from demonstrable popular support."

The formula most often mentioned in political circles now calls for a 25-percent share of directly elected seats in 1988, with 50 percent subject to indirect elections and the remaining 25 percent to be appointed. Last week, a newly formed group of local political leaders called for a post-1997 legislature in which half of the seats would be subject to popular elections.

Not surprisingly, the Daya Bay issue was quickly accepted here as the first substantial test of Beijing's willingness to heed Hong Kong opinion. As such, it failed. Contracts for the project were signed with several French and British suppliers in September.

But many analysts view the political effects of the issue as positive. For one thing, it became the occasion on which Beijing received a delegation of Legislative Council members for the first time, although the significance of this gesture remains unclear.

Although the administration has not yet attempted to measure the extent of public support for direct elections, many local analysts believe it is growing. The issue is to be determined in an interim political review that Britain is to conduct next year.

It is not yet clear how Britain will handle the question of elections, despite the urgency some local politicians attach to them. British officials assert that China can be made to accept more extensive political reforms, pro-

vided they are introduced slowly and do not disrupt the territory's stability.

But in urging this gradual approach, Britain has aroused widespread suspicion in Hong Kong that it is prone to pressure exerted privately by Beijing. During a recent visit, the foreign minister, Sir Geoffrey Howe, warned that political reforms here would have to conform to a constitution, or Basic Law, that China is expected to make public by 1990.

The election issue has already developed into a potential point of conflict in the committee drafting the Basic Law, which is composed of Chinese officials and Hong Kong residents.

The theme of "convergence," first sounded a year ago, has convinced many local political analysts that the current Hong Kong administration is little more than a "lame duck." This impression was furthered during the queen's recent visit to China when much emphasis was placed on bilateral trade between Britain and the mainland.

Despite the current health of the economy, the signs of declining local confidence are equally evident. Emigration, concentrated in the professional and business elites, is indeed but steady; earlier this year, a British securities firm estimated that Hong Kong residents were putting a minimum of \$3 billion yearly into foreign assets.

What is beginning to emerge in Hong Kong is an economy that will be powered less by local capital and more by foreign investors, who are relatively immune to the sovereignty question and view the territory just as Beijing does as a commercial gateway to the mainland, and no more.

Somewhere in the shuffle, the assurances by which the Chinese-British agreement first gained local acceptance appear to have been

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Manufacturing Bows To Service Economy

By Guy Sacerdoti

HONG KONG — Along with South Korea, Taiwan and Singapore, Hong Kong's economic surge over the past 15 years has been most visible in the growth of its manufactured exports.

Its ready work pool translated into cheap labor costs. A free trade policy allowed for inexpensive and readily available industrial inputs. Hong Kong Chinese employed devices to enhance managerial efficiency. And the opening of the China market in 1979, which brought to southern China new productive investments and trading capabilities, created what is now a \$14-billion annual "re-export" flow through Hong Kong. Hong Kong's domestic exports in 1985 were \$16.7 billion.

All contributed to the British territory's consistent position near the forefront of the region's leap into industrialization.

But now, local economists say, the Hong Kong economy has been forced into change by the growing and much larger economies surrounding it, by trade restrictions legislated in the United States and the European Community and by the increasing influence of its giant neighbor, China, which will assume sovereignty over the territory in 1997.

The efficiencies of Hong Kong's competitors in the regions and their larger economies are sapping some of the advantages of Hong Kong manufacturing. As employment in the expanding service industries grows, the labor pool is being drawn away from traditional manufacturing activities by the lure of better wages and more appealing work.

"In 10 or 20 years time," said C.K. Law, a senior research economist at the Hongkong and Shanghai Bank, "Hong Kong will be a very service-oriented economy, with manufacturing being done in southern China."

Indeed, investment in the Pearl River basin has become an attractive alternative to manufacturing in Hong Kong. Since China began its modernization drive in the late 1970s, local industrialists have invested \$2.3

billion in mainland ventures, according to official Chinese sources.

Rising costs in Hong Kong for labor, energy and space have been a major catalyst. During the Hong Kong property boom of the late 1970s and early 1980s, for instance, a number of long-established companies here closed to enter the building spree.

Machinery and equipment often found their way into southern China, and in some cases, entire factories were moved.

At the same time, China itself has slowed the migration process. In Shenzhen and Shantou, the two special economic zones closest to Hong Kong, some operating costs have risen to levels equal to, or in some cases higher than, costs in Hong Kong.

And for textile and garment producers, Hong Kong's international trade agreements, such as the multilateral arrangement, effectively guaranteed minimum export levels, even though attention more often focused on the limitations imposed on annual growth.

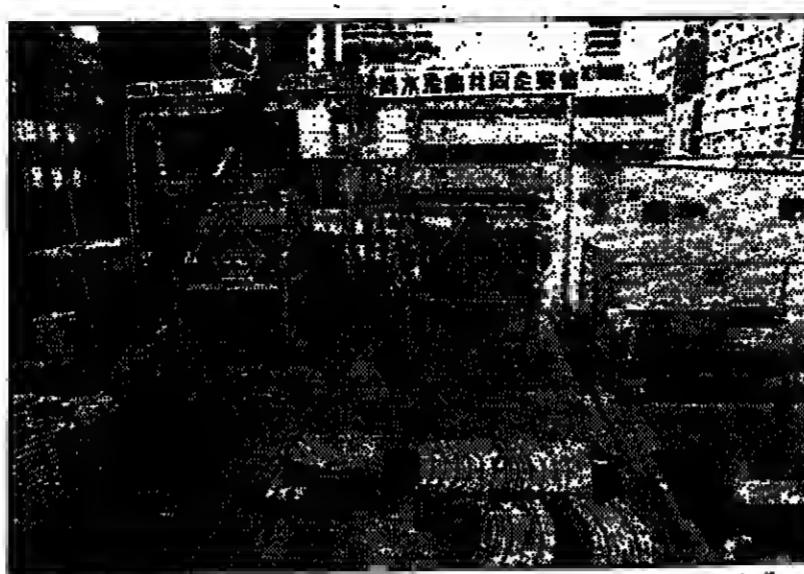
It's going to take time for China to develop a skilled labor force, even for the assembly work now being done in Hong Kong," said an industry economist. "And manufacturers will maintain some operations here, if only to make sure they use up their quota allowances."

But China is not the only factor. Hong Kong lags behind its regional competitors in new product development, chiefly because manufacturers here remain wedded to short-term profit horizons and enjoy little of the government support extended to industry in, say, South Korea or Singapore.

This has been felt particularly in the electronics sector. Two years ago, industrialists vetoed a private-sector proposal to invest a small percentage of export revenues in research and development facilities.

Now the territory is losing out in a number of new product areas. Manufacturers here have not indicated any plans to enter the lucrative market for compact disc players, for instance, despite its acknowledged long-term potential.

Industry sources say local companies are



Workers are being lured from manufacturing to trade and services.

simply unwilling to make the required capital investment.

At a recent conference in Japan on business cooperation, Hong Kong's director of industry, K.Y. Young, said the government would help fund training programs for working technicians rather than devote funds to research and development.

But it is protectionism already an institution among Hong Kong's Western trading partners, and the gradual shift toward automation in the West, in electronics, textiles and plastic, that will ultimately force Hong Kong's economy to change. While marketing and international prices will continue to define the structure and level of Hong Kong's exports, manufacturing in the territory has probably reached its zenith, according to a growing number of bank economists and business leaders.

The trend has long been visible among local textile manufacturers, who have steadily migrated to other nations — Malaysia, Indonesia, Sri Lanka, Mauritius and even countries in the Caribbean — to avoid the stringent quotas imposed on their exports. In short, Hong Kong's economy is being overhauled. And the speed with which it is leaving behind its traditional industries in favor of its services sector has increased with the territory's integration into the mainland economy.

"Hong Kong is gearing its resources to what it does best," said Mr. Law. "And that is services."

In many ways, it already has. The Hong Kong government estimates that 70 percent of the territory's gross domestic product already stems from the service sector. Forty-four of the world's 50 top banks in terms of assets operate out of Hong Kong. Increased U.S. interest in the colony accords its own service-dominated society, while its businessmen see Hong Kong's advantages more and more in terms of a regional service center.

Over the past few years, employment in services has rapidly encroached on the traditional dominance of the manufacturing sector. According to Hong Kong government statistics, manufacturing employment has dropped 9 percent since mid-1984. Employment in trade-related jobs, on the other hand, rose 8 percent. And the financial sector jumped 11 percent. If the rate of change continues, there will be more workers in trade and finance than in manufacturing by 1988.

GUY SACERDOTI is the industry correspondent for *The Far Eastern Economic Review*.

Little Dragonair's Push For Share of the Market

By Kate Campbell

HONG KONG — Since Dragonair's formation a little more than a year ago, local press reports have referred consistently to Hong Kong's newest airline as "an upstart" and a "fledgling." Its principal competitor, Cathay Pacific Airways, has been content with "a bit of a pinprick."

"We get upset when we get tagged with these names," said Stephen H. Miller, chief executive of Hong Kong Dragon Airlines Co., as the carrier is formally known. "It's a new business, and we have a tremendous record of success in business, banking and property."

So far, at least, the record to which Mr. Miller refers is limited to the accomplishments of Dragonair's backers, which include Sir Y.K. Pao, a local property and shipping magnate who is also Dragonair's chairman. Since its maiden flight July 1985, Dragonair's activities have been limited to unscheduled charters flown by its only aircraft, a Boeing 737-200.

But this may soon change. The airline has already received preliminary approval from Hong Kong aviation authorities for flights to eight destinations on the mainland. In August, it applied for rights to 14 additional Chinese cities.

In addition, Dragonair has applied for four routes to Thailand and four to the cities of Kagoshima, Kumamoto, Nagasaki and Oita, all of which are in southern Japan. An application to fly to Guam, which was withdrawn in September, is to be resubmitted, Mr. Miller said.

"We will continue to apply for routes wherever we see opportunities," Mr. Miller said in his office in Hong Kong's Central district.

The airline is to purchase its second Boeing 737 later this year, with a third due for delivery in early 1987.

The arrival in the airline business here of local Chinese investors, many of whom have close mainland ties, has raised serious questions for Cathay Pacific, a subsidiary of the Swire Pacific group. In particular, Dragonair has forced the issue of whether Cathay can maintain its long-held status as Hong Kong's unofficial flag carrier.

This was widely accepted as one reason that Swire decided last May to "localize" Cathay by listing its



Stephen H. Miller

shares separately on the Hong Kong stock exchange. Equally, Dragonair's holding company was restructured last year to eliminate direct mainland interests that totaled about 40 percent.

In effect, competition between the two airlines turns partly on which has a better claim on reciprocal rights extended by other flag carriers serving Hong Kong. The issue has been complicated by the recent formation of a Hong Kong subsidiary by British Caledonian, a private British carrier.

Under a new civil aviation agreement with the Netherlands, concluded earlier this year, authorites said that a Hong Kong airline is one with its principal place of business in the territory.

"Maybe the nationality of airlines will become a non-issue as in shipping," Mr. Miller said. Cathay Pacific refuses to comment officially on this or any other aspect of the airline issue.

Cathay has already forced Dragonair to withdraw its requests for route rights to three U.S. cities — Los Angeles, Houston and Honolulu — in addition to Guam. Analysts believe it is also likely to raise formal objections to many of the route applications that Dragonair now has pending, including those to China and Japan.

KATE CAMPBELL, a journalist in Hong Kong, contributes to *World Executive Digest* and other publications.

Businessmen Bridge Gap

By Kate Campbell and Patrick L. Smith

HONG KONG — As the transition to Chinese sovereignty progresses in the committee formed to manage its many constitutional and legal aspects, business leaders here are becoming an important bridge between Hong Kong and the government to which it will answer.

After decades of caution with regard to mainland investment, new economic links between local companies and China have proliferated since the Chinese-British agreement on Hong Kong was signed in 1984. In many cases, executives forging business ties have also assumed official political roles in the transition process.

Among them, T.K. Ann, chairman of Windsor Industrial Co., Hong Kong's largest textile firm, is also vice chairman of the Basic Law Drafting Committee, which is to produce a post-1997 constitution that Beijing must approve.

Mr. Ann is also among the Hong Kong residents that represent the territory in the Chinese People's Political Consultative Conference, an advisory body in Beijing.

Sir Y.K. Pao, the property and shipping executive, is also a vice chairman on the drafting committee. So is David Li, managing director of the Bank of East Asia. Li Ka-shing, Hong Kong's leading property developer, is an ordinary member.

Soon after Sir Y.K. Pao acquired the Lane Crawford department store last year, through his takeover of the Wilmot Marden group, he cleared two floors of the prestigious retailer for the headquarters of the Basic Law Consultative Committee, of which Mr. Ann is chairman.

That committee is charged with gathering public opinion in Hong Kong on issues related to the future constitution. When the committee was formed last year, Beijing was widely criticized for improperly influencing the selection of its 180 members.

Although the committee was eventually reconstituted, there was little change in its membership. In August, a group of 60 business executives and professionals serving on the consultative committee advanced proposals for a future government that closely followed those of Beijing.

Some of Hong Kong's top executives, such as Sir Y.K. Pao and Li Ka-shing, have been large donors to China, but appear wary of making significant business commitments or entering into joint ventures on the mainland.

The Bank of East Asia; on the other hand, has long maintained mainland interests. David Li, who is also a member of the law-making Legislative Council, recently played a leading role in launching a joint venture merchant bank in southern China that includes both mainland and Western participants.

As the debate over political changes in Hong Kong has developed, the business community has emerged as Beijing's most influential local ally, many analysts believe. Both assert that stability in Hong Kong is best preserved by keeping political change to a minimum.

In essence, many local business leaders are sweeping aside accepted distinctions between Communists and conservative capitalists and addressing the fundamental political issue here more directly than anyone: whether Hong Kong should modernize politically or simply shift from one traditional form of authority to another.

Currency Dip Helps Exports

Continued from page 9

transition back to its original role as a gateway to China, its trade with its future landlord has slackened.

According to official data, the value of exports to China, Hong Kong's most important outlet for goods after the United States, declined 7 percent in the first half of this year, reflecting Beijing's efforts to tighten foreign exchange outflow and check its growing trade imbalance and the momentum of its recent economic reforms.

That self-imposed slowdown was also reflected in Hong Kong's entrepreneurial role as the most significant re-exporter of foreign goods to China. Re-exports of such goods as iron, steel, finished textiles and machinery fell by 28 percent in the first half of 1986, while re-exports from China through Hong Kong to third nations grew by 35 percent.

BankAmerica regional chief, Stephen Hunt, is enthusiastic about foreign investment. "Total foreign investment in Hong Kong's manufacturing sector alone jumped from \$1 billion in 1981 to \$1.5 billion in 1983," he said. "These figures include some 60 companies whose contribution cannot be calculated. Much of that influx of foreign capital has come from the U.S."

"There has been a dramatic shift of foreign investment from Britain to the United States and Japan. Most of that is China-related."

The American Chamber of Commerce in Hong Kong calculates total U.S. investment in Hong Kong to be between \$6 billion and \$6.5 billion, accounting for 53 percent of total foreign investment in the territory, a figure that grows at 5 percent to 6 percent a year.

The chamber's executive director, John F. Goudie, said, "Americans seem to be very bullish on Hong Kong as a gateway to China. We have 2,200 firms registered with us and are seeing an average of eight large U.S. multinational corporations seeking registration each month."

Like the newly industrializing countries among its neighbors, South Korea, Taiwan and Singapore, Hong Kong's prosperity is inevitably linked to the United States, a relationship reflected in the currency peg of 7.80 Hong Kong dollars to \$1, ensuring a degree of consistency in trade with the colony's main trading partner.

The currency factor this year has overshadowed any nervousness expressed by businessmen over China's promise to maintain Hong Kong's free-wheeling status quo after it takes over in 1997.

Outwardly, business is booming. The pegged local currency has weakened sufficiently to make Hong Kong's light manufacturers highly competitive in European Community markets; currency factors have again lowered the prime domestic interest rate

to 6.5 percent; 12 new share issues, including the colony's largest ever, have come to the newly unified stock market at record highs; Japanese investors are busy buying banks and property, and the government calculates unemployment at under 3 percent, which is deemed by global definition as full employment.

Total direct export growth on an annual basis has averaged 10 percent monthly since March, with seven out of nine of Hong Kong's main markets, including the United States, increasing imports. Australia and China have bucked the trend with currency-related declines.

Retained imports for domestic use grew by 10 percent in real terms, a fair measure that the renewed buoyancy has reached the territory's 5.6 million residents, a view further confirmed by a 9.6 percent overall rise in consumer savings.

While retail sales and consumer spending is up, domestic capital expenditure by local industry shows no overall change on the year, according to Mr. Jacobs. This has fueled concern that some businesses are showing a lack of confidence in the future, a concern Mr. Jacobs feels is premature.

"We had a massive lift in plant and machinery installations in 1984 of some 23 percent, the biggest in our history," he said. "Even with a small drop in 1985, they average out as two extraordinary years."

While U.S. investment dominates foreign money in Hong Kong and that directed to China, Japanese businesses are playing an increasingly significant role in their efforts to relocate manufacturing operations from high-wage high-tax Japan.

Japan's largest bank, Dai-Ichi Kangyo, recently purchased middle-ranking Chekiang Bank to be used as a foothold for a solid Japanese presence in the southern Chinese banking market.

Exports to Japan, Hong Kong's fifth largest trading partner, rose 16 percent in the first half of the year with the dominance of the yen.

Chief economist at investment counselors Thornton management, Peter Everington, believes Hong Kong is on the brink of a cyclical boom, "the most spectacular in 25 years," with the China factor as its locomotive.

"Foreign companies with designs on China have found it is actually more expensive to go direct to China and ignore Hong Kong. We are seeing frequent retreat. The Chinese are still grappling with Western business requirements, particularly the profit motive, while Hong Kong has one of the most convenient infrastructures anywhere in the world."

Nevertheless, economists here find it difficult to reach consensus on the colony's long-term financial health: Is growth and investment expanding at a rate that confounds the doomsayers or have economists been hoodwinked into believing that the business on China spells long-term stability instead of short-term financial justification?

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WALL STREET WATCH

Explaining Digital's Rise And Data General's Fall

By VARTANIC G. VARTAN

New York Times Service

NEW YORK — Both Data General Corp. and Digital Equipment Corp., once regarded as perennial rivals in the minicomputer business, were outstanding stock market performers in 1984. Data General's shares climbed 57.7 percent, while Digital's stock rose 53.8 percent.

"Since then, the two stocks have moved in opposite directions," said John L. Rutledge, the industry analyst at Dillon, Read & Co.

Data General's shares, which hit a high of \$76 in February 1985, closed Tuesday at \$26.375, down 62.5 cents to a three-year low. Digital, whose stock has doubled in the last 52 weeks, fell 25 cents to \$95.375. It set a record high of \$103.125 in September.

What caused Data General's star — and its profits — to fall, while Digital Equipment was gaining ground in dramatic fashion?

Wall Street analysts cited the timing and magnitude of the product cycles of the two companies, along with the increasingly competitive nature of the computer industry. "One distinct advantage, too, that Digital Equipment now enjoys is its far greater size," Mr. Rutledge said. "That provides comfort to customers."

At the outset, Data General computers were attractive mainly for offering lower prices for the same performance as Digital's machines, according to Daniel S. Chernoff of Sanford C. Bernstein & Co., whereas Digital's huge installed base and large amounts of applications software made it particularly successful in moving more toward end-user, or customer, sales. In the past, both companies depended to a large degree on third-party resellers, who add software or other enhancements to basic computers.

"Most of Digital's customers today are more interested in the suitability of the overall computing solution to their particular needs, rather than just price," Mr. Chernoff said. "Digital's great strength in its vast array of products that permit a virtually infinite number of configuration options allowing customers to create installations of any size. In contrast, Data General has a smaller installed base of equipment and less available software."

SEVERAL YEARS AGO, Data General got the jump on its competitor because its product line was more appealing than Digital's, which was aging, according to Bruce R. Watts of Morgan, Keegan & Co. But Digital poured money into research and development, and its investment finally paid off.

So while Digital is now gaining market share and reaping profits, Mr. Watts said, Data General must wait for its customers to make full use of the capacity they have already installed. "That should happen in 1987," he added.

Since neither company pays a cash dividend, profits have a big impact on how their stocks perform. At Digital, earnings were \$4.31 a share for the fiscal year ended June 30, and higher profits are envisioned for the current fiscal year. The Value Line Investment Survey, for example, estimates earnings at \$6.50 a share and accords Digital's stock its top rating for timeliness over the next six to 12 months. Last week, Digital said that profits for its first quarter of the current fiscal year more than doubled, to \$1.37 a share, from 60 cents in the period a year earlier.

By contrast, Value Line expects Data General's stock to perform less well than the general market in the coming year. Data General reported profits of 92 cents a share for its fiscal year.

See DIGITAL, Page 15

EC Study On Japan Is Critical

Funds Flaws in Aiding Imports

By Peter Maass
International Herald Tribune

BRUSSELS — The European Community Commission said Wednesday that Japan's year-old program to open its markets had failed to reduce significantly restrictive standards and certification rules for imported consumer goods.

The critical review of Japan's effort to increase imports came as the community made public statistics compiled by the Japanese that showed a significant widening in the EC's trade deficit with Japan.

According to the Japanese figures, the EC's deficit in the first nine months of 1986 nearly doubled, to \$13.3 billion from \$7.7 billion a year earlier. The EC's own figures are not yet available.

In a related trade move, a Commission spokeswoman said that EC foreign ministers, who are scheduled to meet in Luxembourg next Monday and Tuesday, are likely to approve a plan to lodge a formal GATT complaint against Japanese tariffs on wine and other alcoholic beverages.

The spokeswoman added that the ministers plan a "broad-ranging discussion on Japan."

The 16-page review of Tokyo's market-opening program was given to the Japanese on Tuesday. Repeating EC criticisms, the review called for an acceleration and, in some cases, a fundamental revision of Japanese efforts to reduce restrictive product standards and certification rules.

The review analyzed five sectors affected by the Japanese restrictions and concluded that the market-opening program had fallen far short of decreasing such barriers to trade. The five sectors are electric equipment, cosmetic products, pharmaceutical products, motor vehicles and medical equipment.

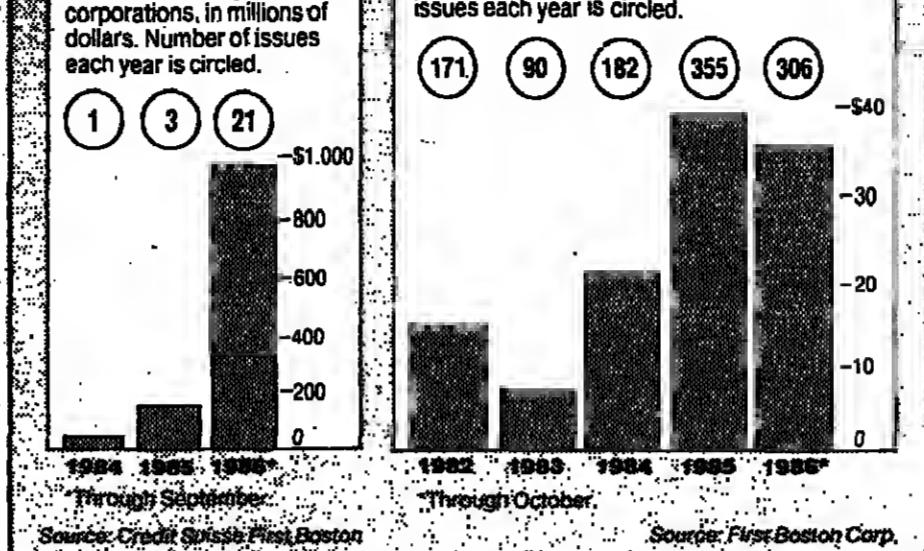
Discussing electrical appliances, for example, the review said Japanese authorities "have chosen to make minor adjustments to the [standards and certification] system, but to preserve its essentially restrictive character."

The review stated that most of the progress affected products that "are of marginal interest to European exporters."

Global Options for Financial Officers

Euro-Equity Offerings

Value of issues by U.S. corporations, in millions of dollars. Number of issues each year is circled.



Source: Credit Suisse First Boston

The New York Times

A World of Options in Financing

Role of Corporate Officer Becomes More Complex

By Leslie Wayne
New York Times Service

NEW YORK — When Fred Zuckerman, treasurer of Chrysler Corp., decided to spread Chrysler's name in the financial world, he turned to Japan.

Chrysler cars are not sold in Japan, but as of last month its stock has been. With its shares now listed on the Tokyo Stock Exchange, the name of Chrysler is shouted by traders in Tokyo as loudly as some Japanese efforts to reduce restrictive product standards and certification rules.

That means Mr. Zuckerman must stay on top of developments in Tokyo, just as other Chrysler executives do on the manufacturing side. Some day Chrysler may very well issue new equity into the Tokyo market. And the fact that a Detroit company has traveled to the financial markets of one of its arch rivals, shows just how global the world of finance has become.

Technology is shrinking the world of finance so that today it is often as easy for an American company to raise capital in London as it is in New York. And, for executives like Mr. Zuckerman, who mastermind Chrysler's financial strategy, the task of being a chief financial officer means he is called on to make more complex decisions than ever before.

Whether it is yen-denominated Eurobonds or complex swaps involving eight different currencies, chief financial officers are finding they must pick their way through a plethora of new financing options in more and different markets.

At one time — five years ago or so — American

corporations seeking to raise money primarily sold their bonds or stocks in the domestic market.

But those days are over. "What has happened in the past five years is a true internationalization of the credit markets," Mr. Zuckerman said. "Before that, you saw little borrowing away from a company's home country."

The first break came in the 1970s with Eurobonds, which are denominated in one country's currency but issued outside the currency's domicile. The amount of Eurobonds issued by U.S. corporations has surged — from \$7 billion issued in 1983, according to Investment Dealers Digest, to about \$35.1 billion issued in 1986 so far.

Since the first Eurobond, there have been a myriad variations on the basic theme, primarily complicated swaps that appeared in 1982. With a swap, two parties exchange each other's debts. That means a corporation can issue, say, bonds denominated in Swiss francs and make dollar payments in return or can swap out of floating-rate debt into a fixed rate.

In the past two years, foreign markets have expanded yet again with the development of Euroequities and Euro-commercial paper. Often corporations can raise money in several markets, typically New York, Tokyo and London, at the same time.

In 1986, so far, American corporations have issued about \$1 billion in equities overseas, compared with \$28 million as recently as 1984, according to First Boston Corp.

Much of this is related to the deregulation of

See FINANCING, Page 17

GMC Reports Operating Loss Of \$338 Million

Compiled by Our Staff From Dispatches

DETROIT — General Motors Corp., the No. 1 U.S. automaker, said Wednesday that it had an operating loss of \$338.5 million in the third quarter, 16 times its loss of \$20.9 million in the 1985 period.

The company blamed the huge shortfall on capital investments, a 15-percent decline in worldwide sales last year in the quarter and the cost of cut-rate financing programs in August and September. The financing, as low as 2.9 percent on three-year contracts, was aimed at clearing out GM's big backlog of unsold 1986 models.

The company said its net profit fell 64 percent in the quarter, to \$176.7 million, or 56 cents a share, from \$483.1 million, or \$1.53 a share, in the 1985 third quarter.

The sales incentives helped push up revenue 2 percent, to \$22.84 billion from \$22.49 billion.

The unit figure included \$1.1 million of tax credits. Profit declines were also steeper somewhat by record earnings at GM's financing subsidiary, General Motors Acceptance Corp., to \$31.7 million, up 17.8 percent from the 1985 quarter.

Earnings for GM's two other subsidiaries, GM Hughes Electronics Corp. and Electronic Data Systems Corp., rose during the quarter as well. Including the results of these three units, GM had consolidated net of \$264 million, down 49 percent from \$517 million in the year-ago period.

The size of the operating loss was in line with analysts' estimates, and GM stock rose 87.5 cents a share, to \$68.375, in active trading on the New York Stock Exchange.

The company has been struggling for most of this year, as its net profit fell 59 percent in the first quarter and 19 percent in the second.

In mid-August, for example, GM's sales fell by 10.4 percent, while Ford Motor Co. posted a 20.3-percent gain, and Chrysler Corp. had a 10-percent gain. GM's share of the American market has also fallen sharply this year.

The sales slump resulted in inventories of 100 days to 250 days in some models. The automaker launched an industry-wide deep-discount sales incentive battle in



Roger B. Smith

late August to clear out the backlog, but the costs of the financing, through the GMAC subsidiary, further depressed profits and ignited financing-incentive battle that analysts say could hurt GM more in the long run.

GMAC had offered new car loans with interest rates as low as 2.9 percent until Oct. 8. The unit recently sold \$4 billion in the low-interest loans to First Boston Corp., one reason for its record performance in the third period.

The problems have forced the company to take a number of major steps in recent weeks. Last month GM confirmed reports that it would drastically alter its marketing strategy, and on Monday it said it was scrapping plans for plastic-body cars.

GM's chairman, Roger B. Smith, also said this month that GM has changed its position and will urge Japanese car makers to cut exports to the United States.

For the first nine months of the year, the company's net profit declined 23 percent, to \$2.06 billion, or \$6.43 a share, from \$2.67 billion, or \$8.43 a share, in the first three quarters of 1985.

Revenue, however, was up 8 percent, to \$77.3 billion from \$71.7 billion.

(Reuters, AP, IHT)

Study Cites Gain In Jobs With Third World Ties

New York Times Service

WAshington — Trade with developing countries in manufactured goods has created more jobs in industrial countries than it has cost, according to a study by the United Nations Industrial Development Organization.

For Japan, the employment gains were equivalent to as much as 15 percent of its total manufacturing employment in 1983. Gains in the United States were placed at 3.3 percent of total manufacturing employment.

The conclusions were based on 1983 trade with the Third World of six developed countries — the United States, West Germany, Japan, France, Britain and Italy.

The analysis was published in the organization's Global Report for 1986, released Tuesday at a news conference in Washington as part of an effort by the Vienna-based specialized agency of the United Nations to become better known in the United States.

The first figure is the quota under the accord reached Aug. 5; the second is the new quota, to take effect Nov. 1.

But a weary Mr. Subroto, who between now and the next meeting must sit with Mr. Lukman on a ministerial quotas committee, told reporters that political will is needed to reach solutions.

Quotas, he said, could not be set to a pure scientific formula. You have to mix it with some political adjustments."

The Gulf war is just one political factor. As the meeting proceeded, Iraq and Iran were attacking each other's oil installations.

Market experts predict that the oil glut may last several more years, with OPEC continuing to need production cuts.

■ The Latest Package

In a final communiqué after its Geneva session, OPEC outlined the following increases in production for member countries. The New York Times reported.

The sales stamp resulted in inventories of 100 days to 250 days in some models. The automaker launched an industry-wide deep-discount sales incentive battle in

the late summer.

Kuwait's quota, set in August at 900,000 barrels a day, will rise to 2,200,000 barrels; Ecuador, from 183,000 to 221,000; Gabon, from 137,000 to 160,000; Indonesia, from 1,189 million to 1,193 million; Iran, from 2.3 million to 2.317 million; Nigeria, from 1.3 million to 1.304 million; Qatar, from 280,000 to 300,000; and Venezuela from 1,555 million to 1,574 million.

Kuwait's quota, set in August at 900,000 barrels a day, will rise to 2,200,000 barrels a day in November it will rise to 921,000 barrels and in December, to 999,000.

The quota for three members will not change: Libya at 990,000 barrels; Saudi Arabia at 4,353 million barrels; and the United Arab Emirates at 950,000 barrels. The agreements exclude Iraq.

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BUSINESS ROUNDUP

Avis Europe to Raise \$278 Million in Offering

Reuters

LONDON — Avis Europe, a subsidiary of the giant U.S.-based vehicle-rental company, Avis Rent-A-Car, said Wednesday that it will sell 72 million shares next month worth \$278 million (\$397.5 million) on the London Stock Exchange, its first public offering.

Alan Cathcart, European managing director and chief executive, said the issue is part of a move to become independent from its parent and to raise cash to finance growth.

The sale, priced at 250 pence a share, is expected to net around £177 million, Mr. Cathcart said. "We've every reason to believe that there will be a small premium for investors," he said.

Almost all of the money raised will go to the American parent, which will retain a 34-percent stake in the European operations, Mr. Cathcart said. About £14 million would be used to finance European growth, he said.

Avis Europe also operates in the Middle East and Africa. The company, whose motto is "We Try Harder," is the second-biggest car rental company in the world, behind Hertz Corp.

Ten million shares would be reserved for investors on the Continent to spread ownership as widely as possible across the company's 600 units of operations, Mr. Cathcart said.

Hitachi Zosen Seeks to Cut Staff

Agence France-Presse

TOKYO — Hitachi Zosen Corp., Japan's third-largest shipbuilder, is proposing closing two of its nine shipyards and trimming its work force by 33 percent, company officials said Wednesday.

The company, badly affected by slump resulting from the sharp rise of the yen that began in September 1985, aims to reduce its work force by 3,500, to 7,000, and shift the emphasis of its operations from shipbuilding to high-technology fields, the officials said.

Hitachi Zosen reported a loss of \$0.8 billion yen (\$13.6 million) in sales of 358 billion yen for the year ended March 31. Further losses are expected for the current year, according to the officials.

Avis said it will have profits of \$33 million for the financial year that ends next February, compared with £25.5 million last year.

Applications for the shares open on Oct. 30. No closing date has been fixed.

Hyundai Venture Unveils Computer

United Press International

NEW YORK — Blue Chip Electronics Inc., in association with Hyundai Group of South Korea, introduced Wednesday an IBM-compatible personal computer that it priced at \$699.

The Blue Chip Personal Computer is fully compatible with the IBM PC-XT and will be available next month at more than 500 outlets throughout the United States, said the electronics company, which is based in Arizona.

The computer is equipped with a floppy disk drive, six expansion slots, a parallel printer port, a serial port, a Hercules-compatible monographic video interface and an IBM-AT-style keyboard. It will be sold through such mass merchants as Target Stores, Caldor, Federated Group Stores, Venture Stores and Walmart.

Yugoslavia's \$4,000 Car Is Making Inroads in U.S.

Reuters

KRAGUJEVAC, Yugoslavia — A company that started as a gun factory a century ago is trying to conquer the world car market with a cheap new model called the Yugo.

Made by Crvena Zastava with a U.S. partner in Kragujevac, 120 kilometers (75 miles) from Belgrade, the export model is a star in Yugoslavia's depressed economy. It also generates hope that other foreign companies will agree to joint ventures in Yugoslavia.

Zastava doesn't just export cars, it exports Yugoslavia," said William Prior, chairman of Yugo-America Inc., Zastava's partner, which imports the cars in America, the major foreign market. The compact hatchback is known as the Yugo 55 at home, the Yugo GV abroad. It sells for \$4,000 and has passed California's stringent pollution tests.

After 10,000 cars in 1985, the launch year, some 50,000 will go to America in 1986, company officials said. This will increase to 70,000 next year. By 1990 the company hopes to sell 220,000 cars annually to Americans, including bigger and sportier models.

At least 5,000 Yugos have been sent to Britain, 4,000 to Egypt and 2,000 to Hungary, with smaller numbers sent to New Zealand, Australia and Canada.

Yugoslav banks are lending Zastava \$300,000, and Yugo-America has pledged \$20 million to expand its capacity for both domestic and export production from 204,000 cars a year now to 350,000 a year by 1990.

Zastava operates under Yugoslavia's socialist ownership system of self-management, where enterprises are granted a fair degree of autonomy. Its efforts are being watched by economic authorities, who have normalized the automobile industry as one that could help reduce its \$2-billion foreign debt.

Tony Cimino, an American who works here with seven other Yugo-American employees to control quality before the cars sail for America, said the key was in Yugo's costs.

"It's back to Henry Ford's concept of vertical integration," he said. "He even had his own ore ships. Zastava has its own engine factory, coal mine, plants for gears, steel presses."

He noted that low labor costs were a major factor. There is little automation and the plant resembles a 1960s car factory in Western countries.

COMPANY NOTES

Fireside Tire & Rubber signaled further retrenchment and a fourth-quarter loss Tuesday. The U.S. tire maker said it will take a fourth-quarter write-down of about \$78 million to cover an unspecified restructuring, which may involve further plant sales and closings and a narrowing of its line of products.

Imasco Ltd. of Canada said it sold its unit, Genstar Rental Electronics Inc. of Palo Alto, California, to William Rollnick & Co. for about \$63 million cash. William Rollnick is a company formed by Genstar's president of the same name. Genstar rents electronic test and measurement equipment.

Knight-Ridder Inc., Miami-based media concern, said its third-quarter profit rose 20.2 percent from a year earlier, to \$31.5 million, or 54 cents a share, from \$26.2 million, or 46 cents a share. Revenue rose 13.9 percent, to \$458.7 million.

Linde AG, the West German engineering concern, said it expects satisfactory results for 1986 after a further improvement in profits in the first nine months. Without detailing the profit figures, Linde said sales rose 4.5 percent in the period to 2.73 billion DM (\$1.37 billion).

News Corp. Ltd. of Australia said it expects to

obtain a listing on the London Stock Exchange on Nov. 12. Its ordinary shares are currently listed on the Australian associated stock exchanges and on the New York Stock Exchange in the form of American depository receipts.

Occidental Petroleum Corp. of the United States announced a program to protect itself from hostile takeovers. For each of Occidental's 164 million common shares, holders could buy 1/100 of preferred stock for \$80. With the preferred stock, they would be able to buy \$160 worth of common shares.

Salsbury Inc. said its third-quarter profit fell 8 percent from a year earlier, to \$12.8 million, largely because of weak results from commodities operations.

Sinwa Bank Ltd. of Japan said its agency in Boston will become a state limited branch Friday providing Far East links for corporate customers.

Washington Post Co. said its third-quarter earnings slipped 3.9 percent from a year earlier, to \$21.1 million, or \$1.65 a share, despite an 8-percent rise in newspaper division revenue. Revenue rose 12.4 percent, to \$291.5 million. The company publishes the Washington Post, The Herald, in Everett, Washington, and Newsweek magazine.

Westinghouse Peabody Co. said its third-quarter earnings

rose 10.4 percent, to \$23.4 million, or 61 cents a share.

Dealers are now watching for U.S. and Japanese buyers' reactions. Further buying would raise prices because merchants have been unable to replenish stocks after this week's raid by at least three major European steel companies, they said.

Stocks have fallen by a third, or about 35,000 metric tons, in the past year to around 75,000 metric tons now.

The newly mined supply for 1986 is expected to be 130,000 metric tons, while consumption is likely to stay around its 1985 level of 160,000 metric tons. As stocks are

depleted, the price could again become volatile.

Analysts and traders said most surplus stocks are now being held by banks as collateral against non-performing loans after the ITC's collapse, and they will not rush to sell just because of the rise in prices.

Banks with a large or sensitive presence in tin-producing areas, such as the government-owned Malaysian banks, Standard Chartered Bank PLC and the Bank of Tokyo are much more likely to allow prices to rally further before selling, analysts added.

Although the possibility of tightly held stocks might indicate higher selling, analysts cautioned that pro-

ducers are still cautious not to lose their share of the world market.

They noted that shipments from the Far East were due shortly in Europe.

Shipments arranged by merchants buying in Kuala Lumpur, Malaysia, depend on prices there being low enough to cover the freight cost to Europe. Otherwise, Malaysia would have difficulty holding its share of the European tin market, they said.

Traders broadly agree that at current supply and demand rates, surplus tin stocks will be almost used up in two years, as reported by a Malaysian tin mining delegation that toured world tin consumers recently to discuss the industry.

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SPORTS

VANTAGE POINT/Thomas Boswell

A Partisan Appeal for Prayer*Washington Post Service*

BOSTON — Oh, no, not again. As matters now stand, the only responsible adult position on the World Series is to root, root, root for the Red Sox like a 10-year-old kid.

For the 90 percent of fans who are nonaligned observers, now is the time to cast independence aside. Register Red Sox.

Call relatives, pester acquaintances, hand out leaflets on street corners. Get friends in Hong Kong! Send a telegram: "Pray for Boston."

Why take sides now? Doesn't the fan stay a step removed, preferring to enjoy the whole sport and cheer for whoever is most worthy? Doesn't the game offer more? We don't leap into a narrow adoration? Well, sure — usually. Aren't the Mets a fine team, a classy franchise with a great future?

They certainly are. Under any normal circumstance, the New York contingent could be endorsed. But these aren't normal days. Enough is enough.

The Mets won a Series in 1969. That's a long time ago, but 17 years isn't 63 years. Old people in this town, Red Sox ardent plainfolk, are in danger of going to their rewards without a single season to go on a note other than defeat. That is excessive.

Far more so would be losing, because this season has, in every sense, been perfect for a Red Sox title.

The team finished fifth in '85, so the pleasures of underdogdom are firmly in place. Splintered by injuries, the club was dismissed as a pretender in July, but it endured. And everyone knows about the playoffs — from complete collapse to the best comeback ever. Nobody has ever returned from 1-3 in games and three runs down in the ninth inning, nor from the potential last strike of the season.

Given all that, if Boston now went to blow a two-game lead in the Series, it would be too ugly to bear.

Look around the diamond. See if you really want the Red Sox to bear the stigma of squandering this Series.

Catcher Rich Gedman is a stoic, self-made player. This summer, his father and step-sister died. At the moment of celebration, he showed little emotion. If he let go, he didn't know what might come out. And he didn't want to find out. Not yet.

Often-injured first baseman Bill Buckner is going to fall apart like a cheap Christmas toy the day after the Series. Second baseman Marty Barrett is your basic feisty, brassy, under-rated infielder who'll probably end up a manager for 25 years. Shortstop Spike Owen is a cheerful young Seattle Mariner reject who's gotten the scapegoat rap for his five-error fielding in the playoffs (he's answered with a 12-for-27 bat). Third baseman Wade Boggs' mother was killed this summer in a car accident.

Left fielder Jim Rice, in danger of joining Rod Carew and Ernie Banks as Hall of Famers who never played in a Series, has outgrown his grouchiness and become a team man. Center fielder Dave Henderson, another Kingdoms escapee, hit a post-season home run that rates with Bobby Thomson's and Bill Mazeroski's. In right field there's Dwight Evans, the classy 15-year veteran who, Boston knows, has two special children at home.

Pitcher Bruce Hurst, a Mormon, was called guitars for years because he acted too civilized to suit his bosses. Dennis Boyd was suspended this

summer and rumored to be on drugs. His hyperactive metabolism and scrawny physique made him look like the public's stereotype of a ballplayer with a drug problem. "Test me," Boyd said, to clear his name. "Every day if you want." And he came up clean every time.

Matters have gone beyond the point where more "Another Boston Choke" headlines are amusing or acceptable. "They can't lose, can they?" implored a woman who has followed the Red Sox for 30 years: "Just tell me they can't lose."

But could they? Could they become the second team ever to win the first two games in their foes' ballpark and then flitter away the crown? Did Tuesday night's third pitch fly out of Fenway Park? Did the first four New Yorkers to face Boyd score? Wasn't the final score an ominous 7-1?

Put it this way, Game 4 is all but lost (hello, Al Nipper). Game 5 is probably history, too — Dwight Gooden, with revenge in his eye. The Series goes back to Shea Stadium, Mets ahead, 3-2.

Even if Roger Clemens wins Game 6, then who's pitching for Boston in No. 7 but Boyd, the human ham radio who picks up every distracting signal in an alien park?

That's vintage Red Sox Think.

You're up, 2-1; you can close it out at home. Your three outs will all pitch fresh, while the other guys will all pitch on short rest — and you're certain you've done.

This simply can't be allowed to happen. Register Red Sox. Is it too late to start a chain prayer?



In Game 3, things weren't exactly looking up for Boston Manager John McNamara.

Nancy Lerner/Wirephoto

Cypriot Team a No-Show for Soccer Cup Match

Compiled by Our Staff From Dispatches
STANBUL — A European unions' Cup soccer match between Turkish and Greek-Cypriots was not played here Wednesday because the Cypriot club did not show up.

The Istanbul team Besiktas, of West German referees, an observer from the Union of European Football Associations (UEFA) and officials were on the field for game with Apollon of Nicosia, slated to start at 2:30 P.M., as a few thousand Besiktas fans, wrote Werner Fockler and Ulf Hvidstrup.

Turkish television that they remained and would inform

UEFA that everything was ready for the game except the Cypriot team. They said they thought Apollon would forfeit the match, but that that would have to be decided by UEFA.

On Tuesday, UEFA warned Apollon that it risked sanctions if it failed to play Besiktas here.

A UEFA statement said the venue and dates for both second-round legs between the two sides — Istanbul Oct. 22 and Nicosia Nov. 5 — had been accepted by the national federations of the two clubs.

"If the decision of the organizational committee is disregarded, the case will be taken up by the

disciplinary bodies of UEFA," the statement said.

It would have been the first major sporting exchange in 12 years between the two countries, which have been technically at war since the Turkish occupation of part of Cyprus.

A Besiktas official dismissed that contention, saying the team had reserved tickets for a private plane from Athens to land in Larnaca, in the Greek part of Cyprus.

The Cypriot government banned Apollon from hosting the second-leg match, saying it had information that Turkey's secret services were planning to provoke incidents against Besiktas when it played in Nicosia, Cyprus' divided capital.

The government banned Apollon from hosting the return match, and that was followed by the club's withdrawal on Sunday from the first leg.

Apollon said it withdrew because

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had received tickets for a private plane from Athens to land in Larnaca, in the Greek part of Cyprus.

Apollon said it would play the games as drawn, but changed its mind after coming under pressure from the Nicosia government during the weekend.

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had received tickets for a private plane from Athens to land in Larnaca, in the Greek part of Cyprus.

A Turkish foreign ministry official called the charges "absurd."

(AP, AFP)

0 Horses Are Entered for Breeders' Cup Races

By Steven Coist
New York Times Service

NEW YORK — Ninety horses entered Tuesday to run for million and more of thoroughbred racing's championship titles at the Breeders' Cup races at Santa Anita on Nov. 1. The only real surprise was the race of Garthorn, the Metro-Handicap winner who had expected to go off a close choice to Precisionist and won in the \$3 million Breeders' Cup Classic, a showdown for one-of-a-kind title.

He didn't work very well Monday morning, his trainer, Bobby Kelly, said, by telephone from ornate. "He's had physical examinations Tuesday morning, which will likely alter between now and the final draw for post-position Wednesday."

The two races for 2-year-olds, both at a mile and a sixteenth on the dirt, figure to crown the divisional champions.

The \$1 million Juvenile for colts

PHOENIX, Arizona (AP) — The National Basketball Association's board of governors voted Tuesday to expand by one to three teams, but not before the 1988-89 season and possibly not until 1990-91.

NBA Commissioner David Stern announced that a five-member expansion committee would be formed and would decide on the sites and timetable for expansion, which will be announced next April in New York.

"The NBA has reached a point in strength where the next logical step is for us to expand," Stern said. "The vote was unanimous — 23-0. The collective force of the presentations given by six cities [Toronto; Milwaukee; Atlanta; Charlotte; Denver; Phoenix] was overwhelming."

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ART BUCHWALD

Hold That Library!

WASHINGTON — It isn't easy to raise money for your school when you have a losing football team.

As Tuna University's leading alumnus fundraiser, I made a house call at Marvin Bromfield's the other day.

"As you know, Bromfield, we have a drive on for the new library and I've been assigned to find out what you will pledge to further the educational goals of your alma mater."

"One hundred thousand dollars."

"That's very generous of you. The school needs a library in the worst way."

"Library? I thought you said linebacker!" Bromfield yelled. "I don't give to libraries when we don't have anyone who can sack a quarterback."

"The chancellor is aware that the university is weak on the line, but you know the school's financial policy as well as I do — one year the money goes for books and the next three years for athletics. We want our university to be a cathedral of learning."

"Tell the chancellor I want that for the school as well. But he'll never get it unless he fires the coach."

"It will be if we find a decent replacement. Look, I'm not one of those fanatic alumni who is always yelling for a winning team, but I

London Museum Charge

The Associated Press

LONDON — London's Natural History Museum will start charging admission next spring even though it is expected to cut attendance by 40 percent, the museum's director said Tuesday. Dr. Ronald Headley said a charge of £2 (\$4.66) would be introduced in April 1987. Headley told reporters admission charges were needed to offset a funding shortfall of £1.3 million for 1987-88.

have priorities too. When I go out to a bar no one ever asks me how Tuna U's library is going to do against Notre Dame. I love Tuna and I say if there is any money left over after we pay the players, then let it buy books. All I ask is that you don't take it away from the boys breaking their backs for ole T.U."

I told him, "We've never short-changed big-time football at Tuna and we never will. But we're still obliged to educate our non-playing students. That is why we are hoping you would throw a few bucks into the academic pot."

"I don't ask for a Rose Bowl invitation every year, but you can't expect a Tuna alumna to give to a school that is 2 and 7 going down fast."

"Nobody likes to be 2 and 7. At the same time we can't shut down the entire institution just because we're having a losing season."

"Why not? It will give everyone a chance to reflect on where we're going as a serious university."

"What would you do if you were the head of Tuna?"

"For starters I would allow the players to cut back on study time so they could concentrate on their game plays."

"We'd like to do that too, Bromfield. But the conference insists on the team members keeping up their grades, and there is nothing we can do about it."

"Then the chancellor should pull us out of the conference."

"The chancellor feels the way you do. He's hurting because not only does he love T. U., but his job is at stake."

"If he really loves the team why doesn't he allow the alumni to give the players better cars? How can we have players who drive Fords go up against ones who drive Audis?"

"The chancellor feels cheap cars give our kids moral fiber?"

Bromfield said, "Hogwash. All he is doing is de-emphasizing football."

"Bromfield, I'm not supposed to tell you this, but we're after an all-American high school quarterback who happens to be an A student. We can get him if we improve our library."

Bromfield took out his checkbook. "Why didn't you say so in the first place?"

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THIS CHRISTMAS, GIVE SOMEBONE an original. Times newspaper done the world over. Call 1-800-252-0029 and get on 10/10 newspaper obituaries.

Elmer [Engel] Jr., 42, died Oct. 11, 1985, in West Palm Beach, Fla. Tel. 407-423-8000.

THANK YOU! See "A Note of prayers" column. Obit and Ads.

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